Can the Dividend Payout Ratio Mediate the Relationship Between the Current Ratio, Debt-to-Equity Ratio, and Stock Price?

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ABSTRACT

This study examines the influence of the current ratio and debt-to-equity ratio on stock prices, with the dividend payout ratio as a mediating variable, focusing on companies listed in the LQ45 index on the Indonesia Stock Exchange. The research population comprised 64 companies, with a sample of 28 firms selected through purposive sampling. Path analysis and the Sobel Test were employed to evaluate the mediating effect of the dividend payout ratio. The results indicate that while the current ratio does not affect the dividend payout ratio, it has a significant positive impact on stock prices. Conversely, the debt-to-equity ratio exerts a significant negative influence on both the dividend payout ratio and stock prices. Moreover, the dividend payout ratio shows no significant effect on stock prices and does not mediate the relationship between the current ratio, debt-to-equity ratio, and stock prices for LQ45 companies during the 2019–2023 period.

Keywords: Current Ratio; Debt to Equity Ratio; Dividend Payout Ratio; Stock Price.

Apakah *Dividend Payout Ratio* Dapat Memediasi *Current Ratio* dan *Debt to Equity Ratio* Terhadap Harga Saham?

ABSTRAK

Penelitian ini bertujuan untuk menguji *current ratio* dan *debt to equity ratio* terhadap harga saham pada perusahaan indeks LQ45 yang terdaftar di Bursa Efek Indonesia melalui *dividend payout ratio* sebagai variabel intervening. Penelitian ini melibatkan 64 perusahaan dalam populasi, dengan 28 di antaranya dipilih sebagai sampel dengan *purposive sampling*. Analisis data menggunakan *path analysis* dan *Sobel Test* untuk variabel mediasi. Temuan menghasilkan *current ratio* tidak berpengaruh terhadap *dividend payout ratio* namun berpengaruh positif signifikan terhadap harga saham. *Debt to equity ratio* berpengaruh negatif signifikan terhadap *dividend payout ratio* dan harga saham. *Dividend payout ratio* tidak berpengaruh terhadap harga saham serta tidak dapat memediasi *current ratio* dan *debt to equity ratio* terhadap harga saham pada perusahaan indeks LQ45 yang terdaftar di Bursa Efek Indonesia periode 2019-2023.

Kata Kunci: *Current ratio; Debt to equity ratio; Dividend payout ratio*; Harga Saham.

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INTRODUCTION

In the current digital era, access to financial management knowledge has become more accessible. Effective financial planning enables individuals to avoid unnecessary spending and allocate funds toward additional income streams with minimal effort, such as investments. Investments can be categorized into two types: real investments and financial investments (Fahmi, 2014). Real investments involve physical assets such as land, buildings, or factories, whereas financial investments are made through financial instruments like bonds and stocks. Typically, investors engage in financial investments via capital markets. Figure 1 below presents data on the growth of investors in the Indonesian capital market over the past five years (2019-2023).

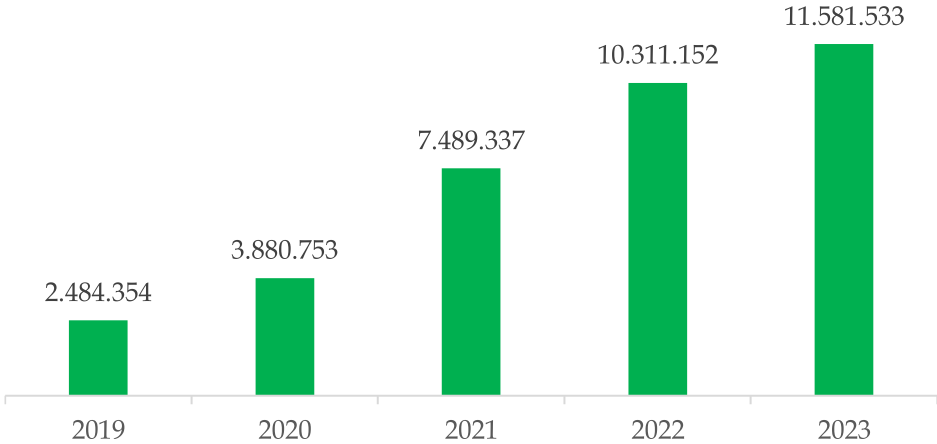

Figure 1. Number of Investors in the Indonesian Capital Market 2019-2023
Source: Indonesian Central Securities Depository, 2024

As shown in Figure 1, the number of investors in the Indonesian capital market has steadily increased each year, reflecting society's growing interest in capital market investments. Capital market activities in Indonesia are regulated by Law No. 8 of 1995, which governs the Indonesia Stock Exchange (IDX) and facilitates the buying and selling of various securities, including stocks. Currently, investors can purchase company shares individually or through stock indices.

The LQ45 index is one of the primary stock indices on the IDX, comprising 45 large-capitalization companies (commonly referred to as "blue chips"). These companies significantly influence the Jakarta Composite Index (JCI) and are known for their high liquidity and robust fundamentals, including strong financial growth and prospects. Given its composition, the LQ45 index is expected to provide relatively stable stock prices. However, in practice, the stock prices within the LQ45 index exhibit fluctuations similar to other listed companies. The following section provides an overview of the average annual stock price trends for the 2019-2023 period.

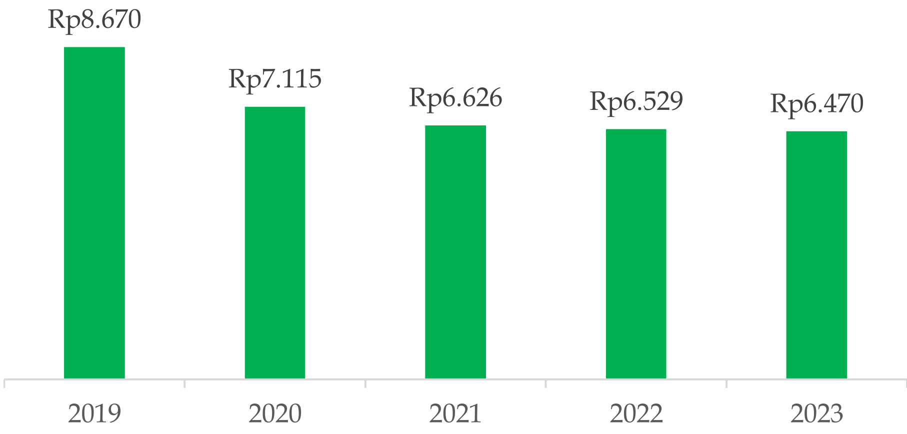

Figure 2. Average LQ45 Stock Price for the 2019-2023 Period

Source: Indonesia Stock Exchange, 2024

Stock price fluctuations, as depicted in Figure 2, are driven by the dynamics of supply and demand in the stock market. Additionally, stock prices are influenced by both external and internal factors (Brigham & Houston, 2018). External factors, which are beyond a company's control, and internal or fundamental factors, which stem from within the company, both play a role. Among the internal factors, the announcement of financial reports is particularly significant, as investors frequently use financial ratio analysis to assess a company's financial performance. These financial ratios include measures of liquidity, solvency, profitability, activity, growth, and market valuation.

One key internal factor is the current ratio, a liquidity measure that indicates a company's ability to meet its short-term obligations (Kasmir, 2018). Companies with high liquidity are often more attractive to investors, leading to increased demand for their shares, which can, in turn, raise stock prices (Fahmi, 2014). Several studies by Fitrianingsih & Budiansyah (2019; Nurismalatri & Artika (2022); Santoso, (2019); Siahaan et al. (2023); Vianti et al. (2019) have found a positive relationship between the current ratio and stock prices. However, other research by Chandra & Taruli (2017); Dewi & Yulfiswandi (2024); Elizabeth & Putra (2023); Rambe et al. (2021) suggests that the current ratio negatively affects stock prices.

Another important factor influencing stock prices is the solvency ratio, often measured by the debt-to-equity ratio. This ratio evaluates the proportion of a company's debt relative to its equity (Kasmir, 2018). A high debt-to-equity ratio indicates a company's heavy reliance on debt to finance its equity, which may deter investors and lead to a decline in stock prices due to reduced market demand (Rambe et al., 2021). Research by Munira et al. (2018); Prianda et al. (2022); Rambe et al. (2021); Santoso (2019); Vianti et al. (2019) supports the finding that the debt-to-equity ratio has a significant negative effect on stock prices. However, contrasting results have been reported by Chandra & Taruli (2017); Dewi & Yulfiswandi (2024); Muslikin & Alim (2023); Nurismalatri & Artika (2022), who found a positive relationship between the debt-to-equity ratio and stock prices.

The inconsistencies in previous research findings suggest that this topic remains worthy of further exploration, with the need to introduce mediating variables to strengthen the relationship between the current ratio, debt-to-equity ratio, and stock prices. One potential mediator is the dividend payout ratio, which is part of market valuation ratios (Brigham & Houston, 2018). The dividend payout ratio represents the percentage of a company's profits distributed to shareholders as cash dividends (Gitman & Zutter, 2012). A higher dividend payout ratio signals to investors a company's ability to generate sufficient profit while meeting its debt obligations, potentially increasing investor interest (Lina et al., 2023). This finding is supported by studies such as Onggrasari & Prasetyo (2020); Santoso (2019); Sutono et al. (2021); Vianti et al. (2019); Wulandari (2022), which show a positive relationship between the dividend payout ratio and stock prices. However, other studies, including Desiana (2018); Devaki (2017); Isnasaputri & Kurnia (2022); Pristianti & Iramani (2022), found that the dividend payout ratio did not significantly influence stock prices.

This study is grounded in signaling theory, which was first introduced by Spence in 1973. Signaling theory posits that the sender (the company) provides signals, such as financial information, that reflect the company's condition and are valuable to the receiver (the investor). According to Fahmi (2014), the provision of company information signals to shareholders or investors how management views the company's future prospects, allowing them to differentiate between high-quality and low-quality firms. In this context, the current ratio, debt-to-equity ratio, dividend payout ratio, and stock price align with signaling theory, as they form part of the financial statements that prospective investors can study to assess the company's past, present, and future financial health (Brigham & Houston, 2018).

Given the background, theoretical framework, and mixed results of prior research, this study aims to contribute to the literature by explaining how the dividend payout ratio mediates the relationship between financial ratios and stock prices. This research provides insights into how dividend distributions influence investor perceptions of a company's stock value. Additionally, the findings can serve as empirical evidence and a point of comparison with previous studies, enriching the literature on factors influencing stock prices in the capital market. The novelty of this study lies in its subject, sample size, and study period.

The current ratio is a measure of a company's ability to meet short-term obligations using its current assets (Kasmir, 2018). In contrast, the dividend payout ratio reflects the proportion of profits distributed to shareholders as cash dividends (Gitman & Zutter, 2012). A higher current ratio indicates a company's strong ability to pay short-term debts, which may influence its dividend distribution policies (Auliana & Anita, 2021). Empirical studies, such as those by Jati (2020); Sarmento & Dana (2016); Shabrina & Hadian (2021); Tram & Nga (2023), have demonstrated that the current ratio positively affects the dividend payout ratio.

H_1: The current ratio has a significant positive effect on the dividend payout ratio.

The debt-to-equity ratio is an important tool used to assess the proportion of a company's debt relative to its equity (Kasmir, 2018). The dividend payout ratio, conversely, indicates the percentage of profits distributed to shareholders as cash dividends (Gitman & Zutter, 2012). A higher debt-to-equity ratio reduces the company's reliance on shareholder funding, potentially limiting its capacity to distribute dividends (Hermiyetti et al., 2023). Empirical studies by Prianda et al.

(2022); Setiajatnika & Iriani (2018); Wulandari (2022) demonstrate that the debt-to-equity ratio negatively impacts the dividend payout ratio.

H$_2$: The debt-to-equity ratio has a significant negative effect on the dividend payout ratio.

Companies with high liquidity levels tend to attract more investor interest, which in turn can drive up stock prices due to increased demand (Fahmi, 2014). As investor interest grows, the value of the company's stock is positively impacted. Prior research by Fitrianingsih & Budiansyah (2019); Nurismalatri & Artika (2022); Santoso (2019); Siahaan et al. (2023); Vianti et al. (2019) have found that the current ratio positively influences stock prices.

H$_3$: The current ratio has a significant positive effect on stock prices.

Firms with high debt-to-equity ratios often face constraints on owner equity, limiting their ability to use capital as collateral for debt (Munira et al., 2018). A high debt-to-equity ratio signals that the company relies heavily on debt for operations, which may discourage investors and reduce stock demand, ultimately lowering stock prices. Empirical studies by Prianda et al. (2022); Rambe et al. (2021); Santoso (2019); Vianti et al. (2019) confirm that the debt-to-equity ratio has a negative effect on stock prices.

H$_4$: The debt-to-equity ratio has a significant negative effect on stock prices.

The dividend payout ratio reflects the percentage of a company's profits distributed to shareholders in the form of cash dividends (Gitman & Zutter, 2012). Dividend payments provide signals to investors about the company's future prospects, influencing their investment decisions. Research by Onggrasari & Prasetyo (2020); Santoso (2019); Sutono et al. (2021); Vianti et al. (2019); Wulandari (2022) has shown that the dividend payout ratio positively affects stock prices.

H$_5$: The dividend payout ratio has a significant positive effect on stock prices.

While a strong current ratio indicates a company's ability to meet short-term obligations, it does not always guarantee debt repayment, particularly if current assets are not efficiently managed. Prabowo (2023) found that the dividend payout ratio can mediate the relationship between the current ratio and stock prices. This suggests that a high current ratio, when coupled with a favorable dividend payout policy, can positively impact stock prices. These findings align with research by Kristianti & Foeh (2020); Wulandari (2022), which indicate that the dividend payout ratio can mediate the effect of the current ratio on stock prices.

H$_6$: The dividend payout ratio mediates the effect of the current ratio on stock prices.

Lina et al. (2023) found that the dividend payout ratio also mediates the relationship between the debt-to-equity ratio and stock prices. An increase in the debt-to-equity ratio affects the net income available for dividends, as debt repayments take priority over dividend distribution. A suboptimal dividend policy can negatively impact the company's valuation, as reflected in its stock price. This is consistent with the findings of Lestari & Susetyo (2020); Megamawarni & Pratiwi (2021); Wulandari (2022), who report that the dividend payout ratio mediates the relationship between the debt-to-equity ratio and stock prices.

H$_7$: The dividend payout ratio mediates the effect of the debt-to-equity ratio on stock prices.

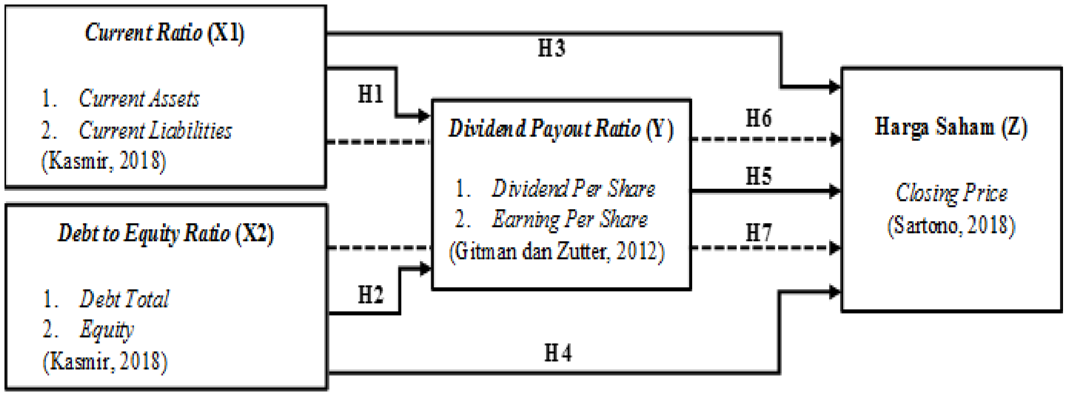

Figure 3. Research Model

Source: Research Data, 2024

RESEARCH METHODS

This study employs a quantitative approach, focusing on causal associative analysis. The secondary data is derived from the financial statements of companies listed in the LQ45 index on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The study population comprises 64 companies that were part of the LQ45 index during this timeframe. A purposive sampling technique was applied, yielding a final sample of 28 companies that remained consistently listed in the LQ45 index throughout the study period.

Table 1. Sampling Process

No	Information	Amount
1	LQ45 member companies listed on the Indonesia Stock Exchange in the 2019-2023 period.	64
2	Companies that are not consistently registered as members of the LQ45 for the 2019-2023 period.	(31)
3	Companies that do not have current ratio, debt to equity ratio, dividend payout ratio or stock price data.	(5)
	Total Company	**28**
	Total Sample During Research Period (28×5)	**140**

Source: Research Data, 2024

Table 2. Operationalization of variables

Variables	Variable Concept	Indicator	Measuring Scale
Stock Price (Z)	Stock prices are prices that occur on the stock market at a certain time determined by market players, namely market supply and demand.(Sartono, 2018).	Closing Price	Ratio
Dividend Payout Ratio (Y)	Dividend Payout Ratio (DPR) is a ratio that shows the percentage of company profits distributed to shareholders in the form of cash dividends.(Gitman & Zutter, 2012).	$\text{DPR} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$	Ratio

Variables	Variable Concept	Indicator	Measuring Scale
Current Ratio (X1)	Current Ratio (CR) indicates the company's ability to meet short-term obligations or debts that will soon mature in full(Kasmir, 2018).	$CR = \frac{\text{Current Asset}}{\text{Current Liabilities}}$	Ratio
Debt to Equity Ratio (X2)	Debt to Equity Ratio (DER) is a ratio used to evaluate the proportion of a company's debt to its equity.(Kasmir, 2018).	$DER = \frac{\text{Debt Total}}{\text{Equity}}$	Ratio

Source: Research Data, 2024

The data analysis method employed in this study is path analysis, conducted using Eviews software version 12. The analysis consists of several stages, including model estimation, path analysis, hypothesis testing for direct effects, and mediation testing using the Sobel Test to examine indirect effects. Two path equations are utilized in the analysis.

The first sub-structural equation examines the impact of the current ratio and debt-to-equity ratio on the dividend payout ratio. The equation is as follows:

$Y = \rho YX_1 + \rho YX_2 + \varepsilon_1$ .... (1)

The second sub-structural equation assesses the influence of the current ratio, debt-to-equity ratio, and dividend payout ratio on stock prices. The equation is as follows:

$Z = \rho ZX_1 + \rho ZX_2 + \rho ZY + \varepsilon_2$ .... (2)

Where,

X_1 = Current ratio
X2 = Debt to equity ratio
Y = Dividend payout ratio
Z = Stock Price
ρ = Path Coefficient X1 to Z
ε1 = error

RESULT AND DISCUSSION

Table 3. Results of the First Equation Model Identification

Testing	Characteristics	Statistics	Prob.	Decision
Chow	Cross-sec. Chi-sq	56.875681	0.0007	FEM
Houseman	Cross-sec. Random	3.059046	0.2166	BRAKE
LM	Breusch Pagan	5.853802	0.0156	BRAKE

Source :Research Data, 2024

Based on the results of the Chow, Hausman and LM tests, the best model in the first equation is the Random Effect Model (REM).

Table 4. Results of the Second Equation Model Identification

Testing	Characteristics	Statistics	Prob.	Decision
Chow	Cross-sec. Chi-sq	268.443880	0.0000	FEM
Houseman	Cross-sec. Random	6.675313	0.0830	BRAKE
LM	Breusch Pagan	163.2899	0.0000	BRAKE

Source :Research Data, 2024

Based on the results of the Chow, Hausman and LM tests, the best model in the Second equation is the Random Effect Model (REM). The classical assumption test is not necessary if using the REM model (Napitupulu et al., 2021).

Panel data regression The first equation shows the effect of current ratio and debt to equity ratio on dividend payout ratio. The results of panel data regression from the Eviews program are as follows:

$Y_{it} = 0.40 - 0.011X_{1t} - 0.117X_{2t} + e$ .... (3)

The constant value of 0.40 means that without the current ratio (X1) and debt to equity ratio (X2), the dividend payout ratio (Y) is 0.40 percent. The beta coefficient for the current ratio, -0.011, indicates that if other variables remain constant and the current ratio increases by 1 percent, the dividend payout ratio will decrease by 0.011 percent. Meanwhile, the beta coefficient for the debt to equity ratio -0.117, indicates that if other variables are constant and the debt to equity ratio increases by 1 percent, the dividend payout ratio will decrease by 0.117 percent.

Panel data regression The second equation shows the effect of current ratio, debt to equity ratio and dividend payout ratio on stock prices. The results of panel data regression from the Eviews program are as follows:

$Z_{it} = 8.79 + 0.079X_{1t} - 0.257X_{2t} - 0.062Y + e$ .... (4)

The constant value of 8.79 suggests that, in the absence of the current ratio (X1), debt-to-equity ratio (X2), and dividend payout ratio (Y), the stock price (Z) would be 8.79 percent. The beta coefficient of 0.079 for the current ratio indicates that, holding all other variables constant, a 1 percent increase in the current ratio would lead to a 0.079 percent increase in the stock price. Similarly, the beta coefficient of -0.257 for the debt-to-equity ratio shows that, with all other variables unchanged, a 1 percent increase in the debt-to-equity ratio would result in a 0.257 percent decrease in the stock price. Finally, the beta coefficient of -0.062 for the dividend payout ratio suggests that, if other variables remain constant, a 1 percent increase in the dividend payout ratio would decrease the stock price by 0.062 percent.

The effect of intervening variables is tested using a path analysis approach, an extension of regression analysis. This approach integrates elements from both regression and mediation models to offer a more comprehensive understanding of the relationships between variables.

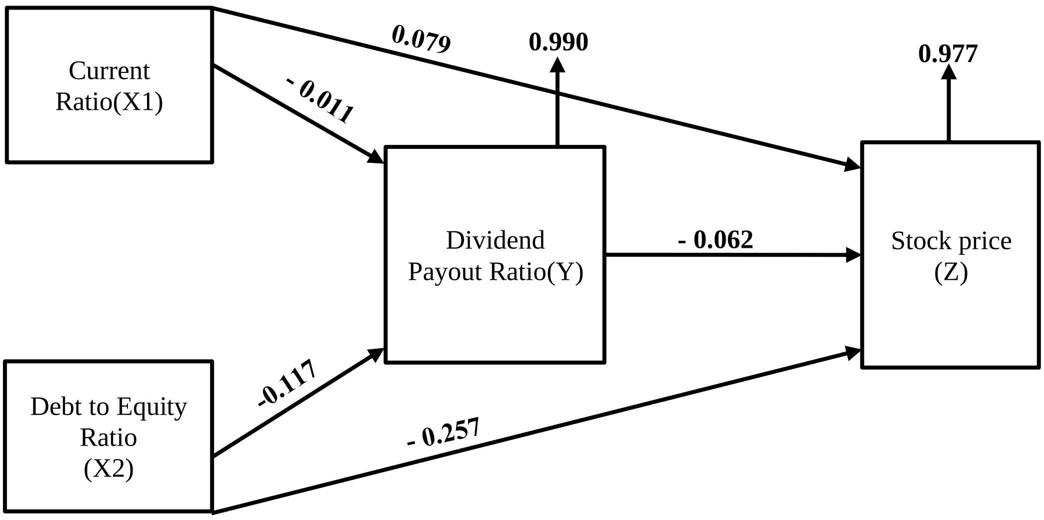

Figure 4. Path Diagram

Source: Research Data, 2024

Based on Figure 4, information is obtained regarding the path coefficient of each relationship directly or indirectly. Furthermore, the magnitude of the direct effect, indirect effect, and total effect is calculated.

Table 5. Recapitulation of Path Analysis Results

Variables			Path Coefficient	Influence		
Exogenous	Endogen	Intervening		Direct (%)	Indirect (%)	Total (%)
CR (X1)	DPR (Y)		-0.011	0.012		
DER (X2)	DPR (Y)		-0.117	1.36		
CR (X1)	HS (Z)	DPR (Y)	0.079	0.62	0.005	0.615
DER (X2)	HS (Z)	DPR (Y)	-0.257	6.60	0.186	6,786
DPR (Y)	HS (Z)		-0.062	0.38		

Source: Research Data, 2024

Current ratio has a significant impact on stock prices, both directly and through the dividend payout ratio. The direct impact of the current ratio on stock prices was recorded at 0.62%, while the indirect impact was 0.005%. Overall, the current ratio contributed 0.615% to stock prices through the dividend payout ratio.

Debt to equity ratio affects stock prices both directly and through the dividend payout ratio. The direct impact of the debt to equity ratio on stock prices reaches 6.60%, while its indirect effect is 0.186%. Overall, the debt to equity ratio contributes 6.786% to stock prices through the dividend payout ratio.

The results of the path analysis show that the debt to equity ratio has a more dominant overall impact on stock prices through the dividend payout ratio compared to the current ratio. Therefore, it is recommended that the companies that are the subjects of this study pay more attention to the proportion of debt to equity that they use. The right debt management policy will have a direct impact on the amount of net profit that can be distributed to shareholders in the form of dividends. Thus, consistency in dividend payments is expected to increase the value of the company's shares in the market.

Table 6. Recapitulation of Hypothesis Test Results and Sobel Test

Variables	Statistical Test	Prob.	Decision
CR→DPR	-0.313 > -1.656	0.7545	Rejected
DER→DPR	-1.769 < -1.656	0.0792	Accepted
CR→HS	2,018 > 1,656	0.0455	Accepted
DER→HS	-2.426 < -1.656	0.0166	Accepted
DPR→HS	-0.843 > -1.656	0.4008	Rejected
CR→DPR→HS	0.29 < 1.65	0.7687	Rejected
DER→DPR→HS	0.76 < 1.65	0.4472	Rejected

Source: Research Data, 2024

The hypothesis test results indicate that the current ratio does not have a significant effect on the dividend payout ratio. The current ratio measures a company's ability to meet short-term liabilities using current assets, while the dividend payout ratio reflects the proportion of net income distributed as dividends to shareholders. Although both metrics are key indicators of a company’s financial health, they are not necessarily correlated. While a high current ratio may provide flexibility to pay dividends, dividend decisions are more influenced by factors such as debt obligations, expansion plans, investment opportunities, income stability, and corporate governance (Sutrisno, 2017). This finding aligns with previous studies Prianda et al. (2022); Rahayu & Hari (2016); Wulandari (2022), which also concluded that the current ratio does not impact the dividend payout ratio. Therefore, fluctuations in the current ratio do not appear to influence the dividend policies of LQ45 index companies during the 2019–2023 period.

In contrast, the hypothesis test for the debt-to-equity ratio shows a significant negative effect on the dividend payout ratio. The debt-to-equity ratio measures the extent to which a company finances its operations through debt versus equity. This relationship is critical in financial analysis, as a higher debt-to-equity ratio increases the burden of interest and principal payments, reducing the funds available for dividend distributions. Moreover, companies with high debt levels are often perceived as riskier by investors due to the potential for default or the need for debt restructuring. To mitigate this risk, such companies may limit dividend payments or maintain larger cash reserves as a financial buffer. As a result, the debt-to-equity ratio influences both the availability of funds for dividends and investors’ perceptions of financial risk, ultimately impacting dividend policy. These results are consistent with prior studies Hermiyetti et al. (2023); Prianda et al. (2022); Setiajatnika & Iriani (2018); Shabrina & Hadian (2021); Wulandari (2022), which also found a significant negative relationship between the debt-to-equity ratio and the dividend payout ratio. This suggests that changes in the debt ratio affect the dividend policies of LQ45 index companies during the 2019–2023 period.

The hypothesis test for the current ratio reveals a significant positive effect on stock prices. A high current ratio signals strong liquidity, which can boost investor confidence in the company’s ability to meet short-term obligations. This, in turn, may encourage investors to purchase shares, driving up stock prices. Additionally, a high current ratio can indicate efficient working capital management, reducing financial risk and signaling stability to investors. These findings align with previous studies by Fitrianingsih & Budiansyah (2019); Nurismalatri & Artika (2022); Santoso (2019); Siahaan et al. (2023); Vianti et al. (2019), which also found a significant positive relationship between the current ratio and stock prices. Therefore, fluctuations in the current ratio can influence stock price movements for LQ45 index companies during the 2019–2023 period.

The results of the statistical hypothesis testing indicate that the debt-to-equity ratio has a significant negative effect on stock prices. The debt-to-equity ratio is a key metric in assessing a company's financial risk, which investors and financial analysts use to make informed decisions. A high debt-to-equity ratio can increase a company’s financial risk by raising its cost of capital and reducing investor confidence, ultimately leading to lower stock prices. Conversely, a low debt ratio signals financial stability, boosting investor confidence and driving up stock prices. This finding aligns with previous studies by Munira et al. (2018); Prianda et al. (2022); Rambe et al. (2021); Santoso (2019); Vianti et al. (2019), which also concluded that stock prices are negatively affected by the debt-to-equity ratio. Therefore, fluctuations in the debt ratio influence stock price movements in LQ45 index companies during the 2019–2023 period.

In contrast, the dividend payout ratio does not have a significant effect on stock prices. While the dividend payout ratio measures the portion of net income distributed as dividends to shareholders, investors often prioritize a company's growth potential and future prospects over dividend payments. Companies that retain earnings for reinvestment may be more attractive to investors than those that distribute high dividends. Additionally, LQ45 index companies are large-cap, well-known firms, and dividend payments may not be the primary factor influencing stock purchases in this index. Other internal and external factors, such as strategic decisions, management changes, government policies, and market conditions, may have a more substantial impact on stock prices (Brigham & Houston, 2018). This result is consistent with studies by Desiana (2018); Devaki (2017); Isnasaputri & Kurnia (2022); Pristianti & Iramani (2022), which also found no significant relationship between the dividend payout ratio and stock prices. Hence, changes in the dividend payout ratio do not appear to affect stock price fluctuations in LQ45 index companies during the 2019–2023 period.

The Sobel test results in Table 6 show that the dividend payout ratio does not mediate the relationship between the current ratio and stock prices. The current ratio and dividend payout ratio represent distinct aspects of a company's financial health—liquidity and dividend policy, respectively. While the current ratio reflects a company’s ability to meet short-term obligations, the dividend payout ratio shows how profits are allocated to shareholders. A company with a high current ratio may exhibit strong liquidity, but this does not necessarily translate into high dividends or stock prices. Similarly, a high dividend payout ratio does not guarantee strong liquidity or stock price performance. These findings are consistent with studies by Dewi & Yulfiswandi (2024); Jakataofik et al. (2023); Lina et al. (2023); Santoso (2019), which also concluded that the current ratio does not affect stock prices through the dividend payout ratio. Therefore, dividend policy cannot always mediate the relationship between the current ratio and stock prices in LQ45 index companies during the 2019–2023 period.

The Sobel test also shows that the dividend payout ratio does not mediate the relationship between the debt-to-equity ratio and stock prices. An increase in the debt-to-equity ratio does not necessarily impact dividends received by shareholders, as these two financial metrics reflect different aspects of a company's performance. The dividend payout ratio indicates the proportion of profits distributed to shareholders, while the debt-to-equity ratio reflects the company's capital structure. A high debt-to-equity ratio may signal increased bankruptcy risk, but if a company has strong growth prospects, its stock price can remain high. Likewise, companies with low dividend payout ratios may retain more funds for investment, potentially boosting stock prices. These findings align with those of Noviana et al. (2022); Prianda et al. (2022); Santoso, (2019); Zakaria (2021), who also concluded that the debt-to-equity ratio does not affect stock prices through the dividend payout ratio. Thus, dividend policy does not always mediate the relationship between the debt ratio and stock prices in LQ45 index companies during the 2019–2023 period.

CONCLUSION

Based on the research and hypothesis testing, it is concluded that the current ratio does not have a significant effect on the dividend payout ratio, whereas the debt-to-equity ratio has a negative and significant impact on it. While the current ratio positively affects stock prices, the debt-to-equity ratio has a negative effect. However, the dividend payout ratio does not show any significant influence on stock prices. Furthermore, there is no evidence to suggest that the dividend payout ratio mediates the relationship between the current ratio and debt-to-equity ratio on stock prices in LQ45 index companies listed on the Indonesia Stock Exchange during the 2019–2023 period.

Based on these findings, it is recommended that the public and potential investors pay particular attention to the information in a company's financial statements, particularly regarding liquidity and solvency, as these factors significantly influence stock prices and investment outcomes. Additionally, the study's scope is limited to internal financial ratios, which may explain the lack of significant effects in some areas and the relatively low coefficient of determination. Future research could incorporate external factors such as inflation, interest rate fluctuations, exchange rate volatility, and political instability to produce more robust findings. Further studies could also focus on companies within the same industry to reduce data variance and enhance the reliability of the results.

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