



# The Effect of Cash Flow and Net Income on Stock Prices of Retail Sector Companies Listed on the Indonesia Stock Exchange (BEI) during the 2020–2023 Period

Bartolomeus Andi <sup>(1\*)</sup> Syahrudin <sup>(2)</sup>, Amrullah <sup>(3)</sup>

<sup>(1,2,3)</sup>STIE Amkop Makassar, Makassar City, South Sulawesi, Indonesia

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\*Corresponding author.

E-mail addresses: [bartolomeusandi@gmail.com](mailto:bartolomeusandi@gmail.com)

	Abstract
<p><b>Keywords:</b> <i>Cash Flow, Net Income, Stock Price, Indonesia Stock Exchange</i></p> <p><b>Conflict of Interest Statement:</b> The authors declare that this research was conducted independently and without any commercial, financial, or external interests that could potentially influence the objectivity, integrity, or outcomes of the study.</p> <p>Copyright © 2023 POVREMA. All rights reserved.</p>	<p><b>Purpose:</b> This study aims to analyze and examine the effect of cash flow and net income on stock prices in retail sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2023.</p> <p><b>Research Design and Methodology:</b> The study employs a quantitative descriptive research approach using a multiple linear regression model. Secondary data were obtained from published financial statements of retail companies listed on the IDX. Data analysis was conducted using the Statistical Package for the Social Sciences (SPSS) version 26 to test both partial and simultaneous effects of the independent variables on stock prices.</p> <p><b>Findings and Discussion:</b> The results indicate that cash flow does not have a positive and significant effect on stock prices, suggesting that an increase in cash flow does not necessarily lead to an increase in stock prices. In contrast, net income has a positive and significant effect on stock prices, indicating that higher net income is associated with higher stock prices. Furthermore, the findings show that cash flow and net income jointly have a significant influence on stock prices.</p> <p><b>Implications:</b> These findings imply that investors in the retail sector place greater emphasis on net income than on cash flow when making investment decisions. For companies, improving profitability may be more effective in enhancing stock value than focusing solely on cash flow performance. This study also provides empirical evidence that can support financial decision-making and future research related to stock price determinants in emerging markets.</p>

## Introduction

In the era of globalization, the rapid development of global capital markets has intensified competition within the business environment. Companies are increasingly required to enhance financial performance in order to remain competitive and attract investors. Sound financial conditions serve as an important signal for investment decisions, as stock prices fluctuate in response to changes in market demand and supply. These fluctuations reflect investor perceptions of company performance and expose investors to varying levels of risk, which must be carefully considered when making investment decisions (Komponen et al., 2010).

Firm value is commonly reflected in stock prices, which represent ownership claims held by investors. One of the primary motivations for investing in stocks is the expectation of returns, obtained through capital gains and profit-sharing mechanisms. However, higher expected returns are typically accompanied by higher investment risk, making it challenging for investors to consistently achieve optimal outcomes.

The retail industry in Indonesia experienced a significant slowdown in 2020. According to Roy N. Mandey, Chairman of the Indonesian Retail Entrepreneurs Association, retail industry growth declined to approximately 3–3.5 percent in 2020, compared to 8–8.5 percent in the previous year (investor.id, 2020). Retail companies are particularly sensitive to changes in consumer behavior and declining demand, especially those selling non-essential goods. In addition, firms face considerable operational costs, including labor and rental expenses, which further affect financial performance.

During the pandemic, the retail industry experienced varying levels of correction depending on the type of goods sold (kontan.co.id, 2020). Within the IDX Industrial Classification (IDX-IC), the secondary consumer goods sector includes companies engaged in the production and distribution of cyclical goods and services. Apparel retail companies represent a major segment of this sector, including PT Mitra Adiperkasa Tbk. (MAPI), PT Map Aktif Adiperkasa Tbk. (MAPA), PT Matahari Department Store Tbk. (LPPF), and PT Ramayana Lestari Sentosa Tbk. (RALS) (sahamu.com, 2021).

Retail companies operate as a subsector engaged in the distribution of goods and services and continue to play an important role in Indonesia's economy due to sustained consumer demand at both national and international levels. According to Martalena and Malinda (2019), the capital market serves as a platform where the demand and supply of long-term capital instruments are brought together. In Indonesia, this function is facilitated by the Indonesia Stock Exchange (IDX), which provides a structured marketplace for trading long-term financial instruments.

Stock price movements of retail sector companies listed on the IDX during the 2020–2023 period indicate considerable fluctuations. The lowest average annual stock price was recorded in 2023 at IDR 575, while the highest average occurred in 2021 at IDR 840, reflecting inconsistent stock price performance throughout the observation period. These fluctuations highlight the importance of identifying financial factors that influence stock prices in the retail sector. In addition to net income, cash flow is a critical indicator of a company's financial condition. Cash flow information from operating, investing, and financing activities is essential for investors when evaluating a firm's ability to sustain operations. Keiso (2013) emphasizes that while net income reflects long-term performance, cash flow is vital for business continuity, as a company cannot operate without sufficient cash. High operating cash flow indicates a firm's capacity to meet obligations internally without reliance on external financing.

Empirical evidence regarding the relationship between cash flow, net income, and stock prices remains inconsistent. Previous studies by Santy Andriyanti (2020), An Sukina Fathia (2020), and Nande Ratna Ayu and Wiraman (2020) found that cash flow and net income influence stock prices, whereas Dea Paramitha (2023) reported that only net income significantly affects stock prices. These mixed findings indicate a research gap and underscore the relevance of further investigation into the effects of cash flow and net income on stock prices in the retail sector.

## **Literature Review**

To explain financial statements, several theoretical perspectives underlying financial reporting within the accounting system must be considered. This study is based on signaling theory. In economics and finance, signaling theory explains how corporate management reduces information asymmetry between managers and investors by conveying signals through financial disclosures. Information asymmetry arises because management has more comprehensive knowledge regarding a firm's current condition and future prospects than external investors. Through financial statements, management sends signals that may influence investor perceptions and decision-making.

One important component of financial reporting is the cash flow statement. According to Kasmir (2013:29), the cash flow statement presents all aspects of company activities that directly or indirectly affect cash. Cash flow can be expressed as the difference between cash inflows and cash outflows during a specific period, where cash flow equals total cash inflows minus total cash outflows. This information allows stakeholders to assess the company's ability to generate cash from its operations.

The Indonesian Institute of Accountants, through the Statement of Financial Accounting Standards (PSAK) No. 2 concerning Cash Flow Statements, requires that cash flows for a given period be classified into operating, investing, and financing activities (Ikatan Akuntan Indonesia, 2004, cited in Silalahi, 2017). In this framework, total cash flow is the sum of cash flows from operating activities, investing activities, and financing activities, enabling users of financial statements to evaluate liquidity, solvency, and financial flexibility.

Profit represents another key indicator of financial performance. According to Suwardjono (2014, cited in Mustika, 2022), profit is defined as an increase in assets during an accounting period that can be distributed to creditors, governments, or shareholders in the form of interest, taxes, and dividends without changing shareholders' equity. Net income, as defined by Sharpe and cited in Miranti (2017), is calculated as the difference between total revenue and total expenses, indicating the portion of income attributable to shareholders.

Net income is obtained by deducting production and operating costs from company revenues, meaning that net income equals revenue minus all related expenses. The calculation of net income provides an indication of a firm's financial stability and operational efficiency. Furthermore, net income serves as an important reference for investors when evaluating investment opportunities and for banks or creditors when assessing a company's creditworthiness. Supriyono (2013:76) explains that net income can be determined by subtracting total costs from total revenues.

## **Research Design and Methodology**

### ***Research Design***

This study adopts an associative and quantitative research design. Associative research aims to identify and analyze the influence or relationship between two or more variables (Sugiyono, 2014, p. 11). In this context, the study investigates the relationship between cash flow, net income, and stock prices of retail companies. According to Juliandi and Irfan (2013), associative research focuses on examining relationships among variables. Quantitative research, as defined by V. Wiratna Sujarweni (2014:39), emphasizes numerical measurement and statistical analysis to test hypotheses and draw objective conclusions.

### ***Population and Sample***

The population of this study consists of all retail companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. The data were obtained from the official website of the Indonesia Stock Exchange. The sampling technique used is purposive sampling, which involves selecting samples based on specific criteria determined by the researcher (Sugiyono, 2017:85). This method was applied because not all listed retail companies met the research criteria required for analysis.

### ***Research Variables and Measurement***

The independent variables in this study consist of total cash flow and net income. Total cash flow is derived from the company's cash flow statement, while net income is calculated as the difference between total revenues and total expenses. The dependent variable is stock price, measured using the closing stock price at the end of each year. These measurements are intended to capture the financial performance indicators that may influence stock prices.

### ***Data Analysis Technique***

The hypotheses proposed in this study are tested using multiple linear regression analysis. This method is applied to measure the strength and direction of the relationship between the independent variables and the dependent variable. Multiple linear regression is suitable for examining the simultaneous and partial effects of cash flow and net income on stock prices.

### *Classical Assumption Tests*

To ensure the validity and reliability of the regression model, classical assumption tests are conducted. These include tests for data normality, multicollinearity, heteroskedasticity, and autocorrelation. These tests are essential to confirm that the regression model meets the assumptions required for unbiased and efficient estimation.

### *Hypothesis Testing*

Hypothesis testing is performed using the individual parameter significance test (t-test) to assess the partial effect of each independent variable, and the simultaneous significance test (F-test) to evaluate the joint effect of all independent variables on the dependent variable. In addition, the coefficient of determination ( $R^2$ ) is used to measure the extent to which variations in stock prices can be explained by cash flow and net income.

## **Findings and Discussion**

### *Findings*

#### *Classical Assumption Tests*

The normality of the regression residuals was tested using the One-Sample Kolmogorov–Smirnov test. As presented in Table 1, the Asymp. Sig. (2-tailed) value is 0.200, which is greater than the significance level of 0.05. According to the decision criteria, if the probability value exceeds the significance level, the residuals are normally distributed. Therefore, it can be concluded that the residuals in this regression model follow a normal distribution, indicating that the normality assumption is satisfied.

#### *Multicollinearity Test*

The multicollinearity test was conducted by examining the tolerance and Variance Inflation Factor (VIF) values. As shown in Table 2, the tolerance values for cash flow and net income are 0.674 and 0.572, respectively, both exceeding the threshold of 0.10. Meanwhile, the VIF values for cash flow (1.483) and net income (1.382) are below the critical value of 10. These results indicate that there is no multicollinearity problem among the independent variables, and the regression model is free from multicollinearity issues.

#### *Heteroscedasticity Tests*

The heteroscedasticity test was performed using a scatterplot of the residuals. The distribution of points appears random and does not form a specific pattern, indicating that the variance of the residuals is constant. This suggests that heteroscedasticity is not present in the regression model. Consequently, the model meets the assumption of homoscedasticity and is suitable for further analysis.

#### *Autocorrelation Test*

Autocorrelation was tested using the Durbin–Watson statistic. As shown in Table 3, the Durbin–Watson value is 1.718. With a sample size of 48 observations and two independent variables, the Durbin–Watson lower bound (DU) is 1.6204 and the value of  $4 - DU$  is 2.3796. Since the Durbin–Watson value lies between DU and  $4 - DU$  ( $1.6204 < 1.718 < 2.3796$ ), it can be concluded that there is no autocorrelation in the regression model. Thus, the autocorrelation assumption is fulfilled.

#### *Multiple Linear Regression Analysis*

The results of the multiple linear regression analysis are presented in Table 4. Based on the regression output, the estimated regression equation can be expressed as follows:

$$\text{Stock Price} = 9.387 - 0.364 (\text{Cash Flow}) + 0.213 (\text{Net Income})$$

The regression coefficients indicate that cash flow has a negative coefficient, while net income has a positive coefficient. This suggests that cash flow is inversely related to stock prices, whereas net income has a direct relationship with stock prices.

#### *Coefficient of Determination ( $R^2$ )*

The coefficient of determination test results are shown in Table 5. The Adjusted R Square value is 0.206, indicating that cash flow and net income jointly explain 20.6% of the variation in stock prices

of retail companies listed on the Indonesia Stock Exchange during the 2020–2023 period. The remaining 79.4% of the variation in stock prices is explained by other factors not included in this study

*Simultaneous Significance Test (F-Test)*

The results of the F-test are presented in Table 6. The calculated F-value is 6.966, which is greater than the F-table value of 3.200. In addition, the significance value is 0.002, which is less than the 0.05 significance level. These results indicate that cash flow and net income simultaneously have a significant effect on stock prices.

*Partial Significance Test (t-Test)*

The results of the partial significance test (t-test) are shown in Table 7.

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.387	2.078		4.518	.000
	Arus Kas	-.364	.119	-.489	-3.071	.004
	Laba Bersih	.213	.116	.292	1.836	.002

Source: Hasil Olah Data Menggunakan SPSS 26, 2025

First, the cash flow variable has a regression coefficient of  $-0.364$  with a t-value of  $-3.071$ , which is smaller than the t-table value of 1.679. The significance value is 0.004, which is less than 0.05. These results indicate that cash flow has a negative and significant effect on stock prices. Second, the net income variable has a positive regression coefficient of 0.213 with a t-value of 1.836, which is greater than the t-table value of 1.679. The significance value is 0.002, which is below the 0.05 threshold. This indicates that net income has a positive and significant effect on stock prices.

*Discussion*

This section discusses the effect of cash flow and net income on stock prices of retail sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period, based on the empirical results obtained in this study.

*Effect of Cash Flow on Stock Prices*

The results of this study indicate that cash flow has a negative and significant effect on stock prices of retail companies listed on the IDX. This finding contradicts the initial research hypothesis, which proposed that cash flow would have a positive and significant effect on stock prices. Therefore, Hypothesis 1 (H1) is rejected.

This result suggests that an increase in cash flow does not necessarily lead to an increase in stock prices within the retail sector. Although the relationship between cash flow and stock prices is statistically significant, the direction of the relationship is negative. This finding is not consistent with the theory proposed by Brigham and Houston (2010), which states that internal factors reflected in financial statements—such as cash flow, dividend payments, earnings forecasts, and earnings per share—play a significant role in influencing stock prices.

The insignificant positive impact of cash flow on stock prices implies that investors may consider factors beyond total cash flow when making investment decisions. These factors may include dividend distribution policies, company risk levels, market conditions, as well as social, political, and economic conditions. Investors generally prioritize returns, particularly dividends and capital gains. Consequently, companies that consistently distribute dividends may continue to attract investors, even if their cash flow shows a declining trend, which can result in stable or increasing stock prices despite reduced cash flow performance.

The findings of this study are consistent with previous research conducted by Santy Andriyanty (2020) and An Sukina Fathia (2020), which concluded that cash flow does not have a positive and significant effect on stock prices. However, this result contradicts the findings of Dea Paramitha (2023) and Dedy Dwi Arseto, Winda, and Endra Hardiyansyah (2024), who reported a positive and significant relationship between cash flow and stock prices.

### *Effect of Net Income on Stock Prices*

The empirical results demonstrate that net income has a positive and significant effect on stock prices of retail sector companies listed on the IDX. This finding supports Hypothesis 2 (H2), indicating that higher net income is associated with higher stock prices.

Several retail companies listed on the IDX experienced increases in net income during the 2020–2023 period, accompanied by moderate increases in stock prices. This finding is consistent with Husnan (2015), who states that companies with strong profitability tend to have higher stock prices. From a theoretical perspective, higher net income indicates that a company has greater capacity to distribute dividends, which positively influences investor perceptions and stock prices.

This result also aligns with the theory proposed by Herry (2015), which emphasizes the importance of net income in the income statement as a key indicator of company performance and the firm's ability to generate returns for investors. Net income serves as a benchmark for corporate success and reflects the financial resources available to shareholders. Therefore, higher net income enhances investor confidence and contributes to stock price appreciation.

Furthermore, the findings of this study are consistent with prior research conducted by Nanden Ratna Ayu and Wirman (2021), Dea Paramitha (2023), and Dedy Dwi Arseto, Winda, and Endra Hardiyansyah (2024), all of which found a positive and significant effect of net income on stock prices. However, these results differ from the findings of Ni Putu Yunita Rustiani (2011), who reported that net income does not have a positive and significant effect on stock prices.

### *Simultaneous Effect of Cash Flow and Net Income on Stock Prices*

The results of the simultaneous testing indicate that cash flow and net income jointly have a significant effect on stock prices of retail companies listed on the IDX. This conclusion is supported by the coefficient of determination ( $R^2$ ), which suggests that variations in stock prices can be partially explained by changes in cash flow and net income.

This finding implies that although cash flow and net income may exhibit different individual effects, both variables collectively play an important role in influencing stock price movements. Increases or decreases in cash flow and net income tend to be followed by corresponding changes in stock prices, indicating that investors consider multiple aspects of financial performance when valuing retail companies. The results of this study are consistent with the findings of Nurhadi Santoso and Sodikin Manaf (2019), who concluded that cash flow and net income simultaneously have a significant effect on stock prices.

## **Conclusion**

Based on the discussion and empirical findings of this study entitled *"The Effect of Cash Flow and Net Income on Stock Prices of Retail Sector Companies Listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 Period"*, it can be concluded that cash flow does not have a positive effect on stock prices of retail sector companies, indicating that an increase in cash flow does not necessarily lead to an increase in stock prices. In contrast, net income has a positive and significant effect on stock prices, suggesting that higher net income is associated with higher stock prices. Furthermore, cash flow and net income simultaneously have a significant effect on stock prices, implying that when considered jointly, these financial indicators contribute to explaining variations in stock prices of retail sector companies listed on the Indonesia Stock Exchange during the 2020–2023 period.

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