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The Effect of Profitability, Interest Coverage Ratio and Foreign Ownership on Stock Returns with Dividend Policy as a Moderating Variable

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Abstract:
This study examines the effects of profitability, the Interest Coverage Ratio (ICR), and foreign ownership on stock returns, with dividend policy as a moderating variable, among energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. A quantitative approach was employed using secondary data and a purposive sampling technique, yielding 206 firm-year observations from 55 companies that satisfied the sampling criteria. Data were analyzed using panel data regression and Moderated Regression Analysis (MRA) with EViews 14. The results show that profitability has a positive and significant effect on stock returns, whereas the Interest Coverage Ratio, foreign ownership, and firm size (control variable) have no significant effect. Dividend policy fails to moderate the effects of profitability and foreign ownership on stock returns; however, it significantly moderates the effect of the Interest Coverage Ratio on stock returns in a negative direction. These findings indicate that profitability remains the fundamental signal investors rely on when evaluating energy sector stocks, whereas dividend policy plays a narrower role, limited to weakening the relationship between debt-servicing capacity and stock returns.

Keywords: Profitability; Interest Coverage Ratio; Foreign Ownership; Dividend Policy; Stock Returns

BACKGROUND

Global financial markets have experienced considerable turbulence in recent years, driven by international economic uncertainty, monetary tightening by the U.S. Federal Reserve, China's economic slowdown, and rising geopolitical tension. The International Monetary Fund (2024) notes that emerging markets are among the most vulnerable to shifts in global capital flows, particularly when interest rate policy changes or perceived market risk increases. As one of the world's prominent emerging markets, Indonesia is not immune to this phenomenon, given the still-substantial dependence of its domestic capital market on foreign investor participation.

Domestically, the Indonesian capital market has displayed a distinctive pattern. Although the Jakarta Composite Index (IHSG) rose by more than 21% and reached record highs, several large-capitalization stocks such as BBCA and BBRI experienced price pressure over the same period, leaving investor returns unevenly distributed (Bloomberg Technoz, 2025). This indicates that stock returns do not always move in tandem with the broader market index but are instead shaped by company- and sector-specific factors.

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The energy sector is particularly illustrative of this volatility. Reuters (2024) reports that fluctuations in global coal and oil prices have rendered energy sector share price movements highly unstable, a pattern corroborated by CNBC Indonesia (2024), which observed sharp share price rallies when commodity prices rose and equally sharp declines when they weakened.

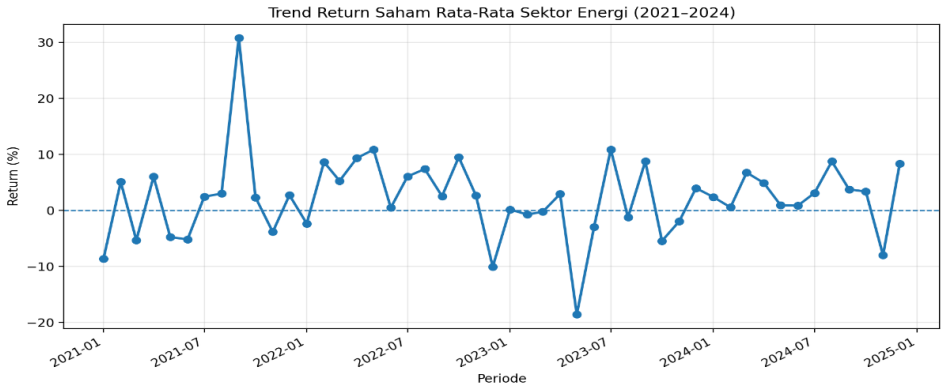

Figure 1. Trend of Average Monthly Stock Returns, Energy Sector, 2021–2024
Source: processed data, 2026.

As shown in Figure 1, the average monthly stock return of Indonesian energy companies fluctuated sharply over the 2021–2024 period: it stood at −8.64% in January 2021 before surging to a peak of 31.01% in September 2021, driven by the post-pandemic commodity boom, rebounding Chinese coal demand, and record global coal prices (Antara News, 2021; Reuters, 2021; International Energy Agency, 2021); it remained broadly positive through 2022, reaching 10.90% in May and 9.72% in November amid the commodity price surge triggered by the Russia–Ukraine war (World Bank, 2022; International Energy Agency, 2023); it then plunged to its lowest point of −18.54% in May 2023 as energy commodity prices corrected by more than 50%, before staging a partial recovery to 10.89% in July 2023 (Bloomberg Technoz, 2023); and by 2024 the trend had relatively stabilized, although a further correction to −7.94% was still recorded in November 2024, even as Indonesia's energy and mineral resources investment realization rose from USD 29.9 billion in 2023 to USD 32.3 billion (Ministry of Energy and Mineral Resources, 2025) underscoring that energy sector stock returns remain highly sensitive to the interplay between global commodity price cycles and firm-level fundamentals.

Beyond commodity price cycles, stock returns are also shaped by international capital flows and investor sentiment. Reuters (2026) reports that global fund exposure to Indonesia declined by 7.6%, with overweight positioning on Indonesian equities falling by more than 17%, while Kontan (2025) notes that foreign ownership of Indonesian equities has fallen to roughly 46.1% of market capitalization. These trends underscore that stock returns respond not only to firm fundamentals but also to shifting sentiment among foreign investors.

From a theoretical standpoint, Signaling Theory (Spence, 1973; Ross, 1977) provides a useful lens through which to interpret these dynamics. Because managers possess more complete information about a firm's condition than outside investors, firms convey signals to the market through financial performance and corporate policy. Profitability is among the most closely watched of these signals: a high level of profitability signals efficient asset utilization and sound financial health, which in turn attracts investor demand and supports share price appreciation (Brigham & Houston, 2019; Tandelilin, 2017). This pattern was evident among Indonesian energy issuers such as Bukit Asam (PTBA), Alamtri Resources Indonesia (ADRO), and Indo Tambangraya Megah (ITMG), which posted sharp net income growth and corresponding share price gains during the 2021–2022 commodity boom, only to see returns soften as profitability normalized in 2023–2024.

Prior empirical work broadly supports a positive profitability–return relationship. Berggrun et al. (2020), studying Latin American markets over 2002–2016, found that highly profitable firms consistently generated higher expected stock returns. Allozi and Obeidat (2016), examining 65 manufacturing firms on the Amman Stock Exchange, likewise found profitability to be a significant positive signal to investors. Comparable results are reported by Hartono and Sulistyowati (2021) for Indonesian property firms and by Alimah et al. (2025) for Indonesian consumer goods firms, reinforcing the view that profitability functions as a robust, cross-market predictor of stock returns.

Beyond profitability, a firm's capacity to service its debt obligations is another signal of financial stability that investors are presumed to monitor. The Interest Coverage Ratio (ICR) measures a firm's ability to cover interest expenses from operating earnings and thus reflects its exposure to default risk (Gitman & Zutter, 2015): a higher ICR should, in principle, lower perceived credit risk and strengthen investor confidence. This issue gained practical relevance in the Indonesian energy sector after coal prices fell by 57% in 2023 relative to the prior year (Databoks, 2023), contributing to a marked decline in profitability among several issuers, including Bukit Asam, and making the sector one of the worst performers on the IDX that year (Bloomberg Technoz, 2023). Findings on the ICR–return relationship remain mixed: Pratiwi and Kustinah (2023) and Rehman et al. (2021) report a significant positive effect, whereas other studies find no significant relationship, leaving the question empirically unresolved particularly for capital-intensive, commodity-exposed sectors such as energy.

Foreign ownership represents a third potential signal. Foreign investors are often presumed to possess superior analytical capacity, broader information access, and greater investment experience than domestic investors, and their presence is frequently associated with improved governance and disclosure quality (Gillan & Starks, 2003). At the same time, a high proportion of foreign ownership can heighten a stock's sensitivity to global sentiment shifts, potentially increasing return volatility rather than lifting average returns (Naufa et al., 2019; To et al., 2019). Empirical evidence on this relationship is similarly inconclusive: some studies (e.g., Yi & Kim, 2025) find that higher foreign or institutional ownership is associated with higher returns, while others (e.g., Wijaya et al., 2025; Masruhin et al., 2023) find no significant relationship.

Dividend policy adds a further layer of complexity. As a directly observable action, dividend policy is theorized to function as a signal of management's confidence in future cash flows and earnings prospects (Lintner, 1956; Gordon, 1963), and it may also condition how investors interpret other fundamental signals strengthening confidence in profitability, debt-servicing capacity, or foreign investor participation when dividends are paid consistently, or prompting more cautious interpretation when they are not (Connelly et al., 2011; Nurhayati et al., 2020). Whether dividend policy actually performs this moderating function among Indonesian energy firms, however, remains an open empirical question, and one that has received limited direct attention in the literature relative to other sectors such as manufacturing, property, or consumer goods.

Motivated by these gaps, this study analyzes the effects of profitability, the Interest Coverage Ratio, and foreign ownership on stock returns, with dividend policy as a moderating variable and firm size as a control variable, among energy sector companies listed on the IDX over 2020–2024. The study contributes to the literature in three ways. First, it provides new evidence on return determinants within a highly commodity-sensitive, capital-intensive sector that has received comparatively little attention relative to manufacturing, property, or consumer goods industries. Second, it tests the moderating role of dividend policy simultaneously across three independent variables (profitability, ICR, and foreign ownership) within a single Moderated Regression Analysis (MRA) framework, an approach rarely applied jointly in the extant literature. Third, it offers practical implications for investors, corporate

management, and policymakers navigating an energy sector shaped by volatile global commodity cycles and shifting international capital flows.

THEORETICAL FRAMEWORK

Signaling Theory and Agency Theory

Signaling Theory, introduced by Spence (1973) and extended to corporate finance by Ross (1977), rests on the premise of information asymmetry between management and outside investors. Because managers possess superior knowledge of the firm's true condition, they use financial announcements, profitability trends, dividend decisions, and ownership structure changes to convey credible information to the market (Brigham & Houston, 2019). Investors interpret these signals and adjust their investment decisions accordingly, which is ultimately reflected in share price movements and stock returns (Connelly et al., 2011). In this study, profitability, the Interest Coverage Ratio, and foreign ownership are treated as signals of firm quality and prospects, while dividend policy is treated both as an independent signal and as a moderating mechanism that can strengthen or weaken investors' interpretation of the other signals.

Agency Theory (Jensen & Meckling, 1976) complements this framework by describing the contractual relationship between principals (shareholders) and agents (management). Because managers may not always act purely in shareholders' interests, mechanisms such as dividend distribution can serve to discipline management, reduce the free cash flow available for discretionary use, and align managerial incentives with shareholder value maximization an outcome that should, in turn, be reflected in stock returns.

Hypothesis Development

Profitability reflects a firm's capacity to generate earnings from the assets and capital it employs (Brigham & Houston, 2019). High profitability signals efficient management, financial health, and favorable growth prospects, increasing investor confidence and demand for the firm's shares, thereby raising stock returns through capital gains (Tandelilin, 2017). Consistent with the empirical evidence discussed above (Berggrun et al., 2020; Allozi & Obeidat, 2016; Hartono & Sulistyowati, 2021; Alimah et al., 2025), this study proposes:

H1: Profitability has a positive and significant effect on stock returns.

A higher Interest Coverage Ratio indicates greater capacity to meet interest obligations from operating income, implying lower default risk and, theoretically, greater investor confidence (Gitman & Zutter, 2015). Building on the mixed but partially supportive evidence in Rehman et al. (2021) and Pratiwi and Kustinah (2023), this study proposes:

H2: The Interest Coverage Ratio has a positive and significant effect on stock returns.

Foreign ownership is often associated with stronger governance, greater analytical capacity, and improved information transparency (Gillan & Starks, 2003), which may signal higher firm quality to the broader market and support higher stock returns, as suggested by Yi and Kim (2025). This study therefore proposes:

H3: Foreign ownership has a positive and significant effect on stock returns.

Firm size, measured as the natural logarithm of total assets, is included as a control variable because larger firms are typically assumed to have greater access to financing, more diversified operations, and lower operational risk, which could independently influence stock returns.

Building on the signaling and moderation logic outlined above (Lintner, 1956; Gordon, 1963; Connelly et al., 2011; Nurhayati et al., 2020), this study further proposes that dividend policy conditions how investors interpret the profitability, debt-servicing capacity, and foreign-ownership signals:
H4: Dividend policy moderates the effect of profitability on stock returns.
H5: Dividend policy moderates the effect of the Interest Coverage Ratio on stock returns.
H6: Dividend policy moderates the effect of foreign ownership on stock returns.

METHOD

Population, Sample, and Data

The population comprises all energy sector companies listed on the Indonesia Stock Exchange during 2020–2024, totaling 91 issuers. A purposive sampling technique was applied using three criteria: (1) continuous listing on the IDX throughout 2020–2024; (2) publication of audited annual financial statements for the entire period; and (3) reporting positive net income throughout the period. As summarized in Table 1, this process yielded 55 companies and 275 firm-year observations; after removing 69 outlier observations, the final analytical sample comprised 206 firm-year observations.

Table 1. Sample Selection Procedure

Criteria	Firms	Observations
Energy sector companies listed on the IDX	91	455
Not continuously listed during 2020–2024	(2)	(10)
Did not publish audited annual reports for 2020–2024	(20)	(100)
Did not report positive net income during 2020–2024	(14)	(70)
Subtotal	55	275
Outlier observations removed	-	(69)
Final sample	55	206

Source: processed data, 2026.

Data were obtained from companies' audited annual reports, IDX ownership summaries, and market data providers (IDX Statistics, Yahoo Finance, RTI Business, and Investing.com), covering profitability, interest coverage, ownership structure, dividend distributions, total assets, and year-end closing share prices.

Variable Measurement

Table 2. Operational Definition and Measurement of Variables

Variable	Type	Measurement
Stock Return (RS)	Dependent	(P_it − P_it−1) / P_it−1
Profitability (PROF)	Independent	Return on Assets = Net Income / Total Assets
Interest Coverage Ratio (ICR)	Independent	EBIT / Interest Expense
Foreign Ownership (FO)	Independent	Shares held by foreign investors / Total shares outstanding

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Variable	Type	Measurement
Dividend Policy (DPR)	Moderating	Dividend Payout Ratio = Dividend per Share / Earnings per Share
Firm Size (SIZE)	Control	Ln (total assets)

Source: Brigham & Houston (2019); Gitman & Zutter (2015); processed by the author, 2026.

Analytical Technique

Data were analyzed using panel data regression estimated with EViews 14. The Chow and Lagrange Multiplier (LM) tests were used to select among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM); both tests favored the CEM as the most appropriate specification for the base model. Classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity) were subsequently performed to confirm the validity of the CEM estimates. To test the moderating role of dividend policy, Moderated Regression Analysis (MRA) was applied by introducing three interaction terms PROF×DPR, ICR×DPR, and FO×DPR into the base model. The resulting model is specified as:

$$RS = \alpha + \beta 1PROF + \beta 2ICR + \beta 3FO + \beta 4SIZE + \beta 5(PROF \times DPR) + \beta 6(ICR \times DPR) + \beta 7(FO \times DPR) + \varepsilon$$

Hypotheses were evaluated using the partial t-test (individual significance at $\alpha = 0.05$), the simultaneous F-test (overall model significance), and the Adjusted R^2 statistic (explanatory power of the model).

RESULT

Descriptive Statistics

Table 3. Descriptive Statistics (n = 206)

Variable	Minimum	Maximum	Mean	Std. Dev.
PROF	−0.3836	0.4877	0.0771	0.1101
ICR	−2.9000	589.5900	25.0609	64.5391
FO	0.0000	0.8266	0.1696	0.1892
SIZE	15.1249	23.1012	19.5727	1.7929
DPR	0.0000	2.2578	0.2528	0.3544
RS	−0.6594	0.8851	0.0173	0.2907

Source: EViews 14 output, processed data, 2026.

On average, sampled energy companies generated a return on assets of 7.71%, with values ranging from a loss position of −38.36% (PT Buana Lintas Lautan Tbk, 2021) to a high of 48.77% (PT Prima Andalan Mandiri Tbk, 2022). The Interest Coverage Ratio shows the widest dispersion of all variables (mean 25.06, SD 64.54), ranging from a negative value of −2.90 (PT Mitrabara Adiperdana Tbk, 2020) to 589.59 (PT Baramulti Suksessarana Tbk, 2023), indicating substantial heterogeneity in debt-servicing capacity across firms. Foreign ownership averaged 16.96% of outstanding shares, with several firms such as PT Adaro Minerals Indonesia Tbk in 2020 reporting no foreign ownership at all. Firm size was comparatively homogeneous (mean 19.57, SD 1.79), while average dividend payout stood at 25.28%, with a maximum of 225.78% (PT Adaro Energy Indonesia Tbk, 2023) and numerous zero-dividend firm-years. The dependent variable, stock return, averaged a modest positive 1.73% but exhibited high variability (SD 0.2907), ranging from −65.94% (PT AKR Corporindo Tbk, 2022) to 88.51% (PT Prima

Andalan Mandiri Tbk, 2022), consistent with the sector's documented sensitivity to commodity price cycles and global market sentiment.

Model Selection and the Moderated Regression

The Chow test yielded a cross-section F-statistic of 0.7310 (p = 0.9059) and a cross-section Chi-square of 49.9076 (p = 0.6329), both exceeding the 5% significance threshold and thus favoring the Common Effect Model over the Fixed Effect Model. Subsequent Lagrange Multiplier testing corroborated this choice. The CEM was therefore adopted as the base specification, and classical assumption tests confirmed that the residuals were normally distributed and free from problematic multicollinearity, autocorrelation, and heteroscedasticity.

Table 4. Moderated Regression Analysis (MRA) Results Common Effect Model

Variable	Coefficient	t-Statistic	Prob.	Decision
Constant	−0.0091	−0.0394	0.9686	
PROF	0.5853	2.0814	0.0387	H1 accepted
ICR	0.0013	1.9144	0.0570	H2 rejected
FO	0.2273	1.7806	0.0765	H3 rejected
SIZE (control)	−0.0031	−0.2595	0.7955	n.s.
PROF × DPR	0.5202	1.0768	0.2829	H4 rejected
ICR × DPR	−0.0024	−2.3187	0.0214	H5 accepted
FO × DPR	−0.3512	−1.4458	0.1498	H6 rejected

Notes: $R^2 = 0.1038$; Adjusted $R^2 = 0.0721$; F-statistic = 3.2770 (Prob. = 0.0026); Durbin–Watson = 2.6338.
Source: EViews 14 output, processed data, 2026.

The estimated regression equation is:

$$RS = -0.0091 + 0.5853 \cdot PROF + 0.0013 \cdot ICR + 0.2273 \cdot FO - 0.0031 \cdot SIZE + 0.5202 \cdot (PROF \times DPR) - 0.0024 \cdot (ICR \times DPR) - 0.3512 \cdot (FO \times DPR) + \varepsilon$$

The simultaneous F-test indicates that the overall model is statistically significant (F = 3.2770, p = 0.0026 < 0.05), confirming that the independent, control, and interaction variables jointly explain a significant portion of the variation in stock returns. However, the Adjusted R^2 of only 0.0721 indicates that the model explains approximately 7.21% of the variance in stock returns, implying that a substantial share of return variation is driven by factors outside the model, such as global commodity price movements, macroeconomic conditions, and market-wide sentiment.

DISCUSSION

Profitability and stock returns. The results show that profitability has a positive and significant effect on stock returns (β = 0.5853, p = 0.0387 < 0.05), supporting H1. This finding is consistent with Signaling Theory: higher profitability signals sound financial health, effective cost management, and the ability to capitalize on favorable market conditions qualities that energy sector investors appear to value even amid commodity price volatility.

The result is in line with a substantial body of prior evidence, including Alimah et al. (2025), Biharuddin et al. (2024), Lim et al. (2024), Hartono and Sulistyowati (2021), Apriyani et al. (2021), and Berggrun et al. (2020), all of whom report a positive and significant profitability–return relationship across various sectors and markets. However, the finding contrasts with a substantial number of studies that report no significant effect of profitability on stock returns, including Arsalan and Nursiam (2024), Saputra (2023), Erawati et al. (2023), Fatahillah et al. (2022), Krismandari and Amanah (2021), Putri and Hastuti (2021), and Hawari and Putri (2020). These divergent findings are plausibly attributable to differences in industry characteristics, study periods, prevailing economic conditions, and analytical methods; the present study focuses specifically on the energy sector, which benefited from rising global energy demand and elevated commodity prices for much of 2020–2024, making profitability a particularly salient signal for investors evaluating this sector relative to manufacturing, property, or consumer goods firms.

Interest Coverage Ratio and stock returns. Contrary to H2, the ICR shows no significant direct effect on stock returns ($\beta = 0.0013$, $p = 0.0570 > 0.05$). While a high ICR theoretically signals lower default risk, investors in the energy sector appear to weight commodity price prospects, industry dynamics, and macroeconomic conditions more heavily than debt-servicing capacity when forming return expectations. This result diverges from Pratiwi and Kustinah (2023) and Rehman et al. (2021), who each report a significant positive effect of the Interest Coverage Ratio (or leverage-related solvency measures) on stock returns. A likely explanation for this discrepancy lies in sectoral differences: Pratiwi and Kustinah (2023) study property firms and Rehman et al. (2021) study textile firms in Pakistan, both of which operate in industries with more predictable financing structures and lower exposure to global commodity price swings than the energy sector, where financing structures vary widely across firms and interest-coverage capacity is only one of many considerations weighed by investors.

Foreign ownership and stock returns. Foreign ownership similarly shows no significant direct effect on stock returns ($\beta = 0.2273$, $p = 0.0765 > 0.05$), leading to the rejection of H3. This suggests that the mere presence of foreign shareholders does not, on its own, translate into higher returns for energy sector stocks. The finding is consistent with Wijaya et al. (2025), who report that foreign ownership does not significantly affect stock return volatility, and with Masruhin et al. (2023), who find no significant effect of foreign ownership on the stock returns of state-owned enterprises listed on the IDX. It is, however, at odds with Yi and Kim (2025), who find that higher institutional and foreign ownership is associated with higher stock returns in the Korean market, as well as with To et al. (2019) and Naufa et al. (2019), who find that foreign ownership significantly affects stock return volatility and risk in Vietnamese and ASEAN markets, respectively. The discrepancy likely reflects differences in the object of study, capital market characteristics, the dependent variable used (return level versus return volatility), and prevailing economic conditions across countries; moreover, foreign investors in the Indonesian energy sector tend to adopt longer investment horizons, such that changes in ownership proportion are not immediately capitalized into short-term price movements.

Firm size (control variable). Firm size shows no significant effect on stock returns (β = −0.0031, p = 0.7955). This finding is consistent with Hawari and Putri (2020), Erawati et al. (2023), and Fatahillah et al. (2022), who likewise find that firm size does not significantly influence stock returns, but it contradicts Alimah et al. (2025), who find that firm size has a positive and significant effect on stock returns and that this relationship is further strengthened when moderated by dividend policy. The contrast is plausibly explained by sectoral characteristics: Alimah et al. (2025) study the comparatively stable consumer goods sector, whereas the present study focuses on the energy sector, which is asset-intensive by nature large asset bases are often a structural necessity for exploration, production, and distribution rather than a discretionary signal of superior performance so that size alone conveys limited information about return prospects.

Moderating role of dividend policy. Dividend policy does not moderate the effect of profitability on stock returns (PROF×DPR: β = 0.5202, p = 0.2829 > 0.05; H4 rejected), suggesting that investors' response to earnings information is largely independent of the accompanying payout decision plausibly because energy firms retain a substantial share of earnings for capital-intensive reinvestment regardless of profitability levels. This result is consistent with a wide range of prior studies, including Biharuddin et al. (2024), Arsalan and Nursiam (2024), Erawati et al. (2023), Fatahillah et al. (2022), Krismandari and Amanah (2021), Apriyani et al. (2021), Putri and Hastuti (2021), and Hawari and Putri (2020), all of whom likewise find that dividend policy fails to strengthen or weaken the profitability–return relationship. It contrasts, however, with Alimah et al. (2025), who find that dividend policy does strengthen the effect of profitability on stock returns among consumer goods firms a sector with markedly lower capital expenditure requirements and, consequently, greater flexibility to distribute larger dividends without compromising growth investment.

By contrast, dividend policy significantly moderates the effect of the Interest Coverage Ratio on stock returns, and the negative interaction coefficient (ICR×DPR: β = −0.0024, p = 0.0214 < 0.05; H5 accepted) indicates that this moderation weakens, rather than strengthens, the ICR–return relationship. In other words, once a firm distributes dividends, investors appear to place less weight on its interest-coverage capacity, treating the dividend decision itself as sufficient evidence of financial adequacy and thereby diluting the incremental information value of the ICR signal. This pattern is broadly consistent with Andriani and Hastuti (2023) and Hawari and Putri (2020), who likewise find that dividend policy alters investors' reliance on solvency-related financial indicators, though it diverges from Apriyani et al. (2021), who find that dividend policy moderates the relationship between a broader solvency measure and stock returns among LQ45 firms without weakening it. The difference is likely attributable to variation in the specific financial-condition proxy used, the industry studied, and the underlying research model; given that studies explicitly examining dividend policy as a moderator of the ICR–return relationship remain scarce, particularly in the energy sector, this finding offers new empirical evidence on that specific relationship.

Finally, dividend policy does not moderate the effect of foreign ownership on stock returns (FO×DPR: $\beta = -0.3512$, $p = 0.1498 > 0.05$; H6 rejected). This finding is consistent with the broader pattern reported by Biharuddin et al. (2024), Arsalan and Nursiam (2024), Erawati et al. (2023), Fatahillah et al. (2022), Krismandari and Amanah (2021), Apriyani et al. (2021), Putri and Hastuti (2021), and Hawari and Putri (2020), who collectively find that dividend policy does not consistently moderate the relationship between firm-level fundamental variables and stock returns, and it is further corroborated by Masruhin et al. (2023), who find that neither foreign ownership nor dividend policy has a significant effect on stock returns among state-owned enterprises. Taken together, these results suggest that foreign investors' evaluation of a firm's ownership-related quality signal is not materially altered by its dividend distribution policy, likely reflecting their broader focus on industry prospects, corporate governance, and macroeconomic conditions rather than payout decisions alone.

CONCLUSION

This study examined the effects of profitability, the Interest Coverage Ratio, and foreign ownership on stock returns among Indonesian energy sector companies over 2020–2024, with dividend policy as a moderating variable. Panel data regression using the Common Effect Model shows that profitability has a positive and significant effect on stock returns, while the Interest Coverage Ratio, foreign ownership, and firm size do not exert a significant direct effect. Dividend policy fails to moderate the profitability–return and foreign ownership–return relationships but significantly and negatively moderates the Interest Coverage Ratio–return relationship. Collectively, these findings indicate that profitability remains the primary fundamental signal driving energy sector stock returns in Indonesia, while dividend policy's moderating influence is confined to weakening the relevance of debt-servicing information once dividends are paid.

Theoretically, the findings reinforce Signaling Theory with respect to profitability while indicating that Interest Coverage Ratio and foreign ownership signals are not, on their own, strong enough to shift investor behavior in this sector broadening understanding of how signal strength varies across firm characteristics and sector contexts. Practically, investors evaluating energy sector stocks are advised to prioritize profitability indicators alongside broader considerations of industry prospects, commodity price trends, and macroeconomic conditions, rather than relying solely on debt-servicing ratios, ownership composition, or firm size. Corporate management should likewise recognize the continued importance of sustaining profitability as a market-confidence driver and should carefully weigh dividend policy decisions in light of their effect on how investors interpret other financial signals.

This study is subject to several limitations. First, the sample is confined to energy sector firms listed on the IDX, limiting generalizability to other industries. Second, the observation period (2020–2024) is relatively short and encompasses an atypical pandemic-recovery commodity cycle. Third, the model's Adjusted R^2 of 7.21% indicates that a large share of return variation remains unexplained, pointing to omitted variables. Fourth, dividend policy was the only moderating variable considered. Future research is encouraged to extend the observation

period, examine additional sectors, and incorporate further explanatory variables such as Environmental, Social, and Governance (ESG) performance, leverage, liquidity, systematic risk (stock beta), exchange rates, inflation, interest rates, and commodity prices to build a more comprehensive understanding of the determinants of stock returns.

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