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The Influence of Leverage, Profitability, and Firm Value on Share Prices: The Moderating Role of Inflation

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Abstract

The Sharia capital market in Indonesia has experienced significant growth in the number of transactions. However, companies' share prices on the Jakarta Islamic Index tend to decline. This research examines factors influencing the share prices of 30 firms listed on the Jakarta Islamic Index from 2018 to 2022. These factors include leverage, profitability, and firm value. This research also explores the role of inflation as a moderating variable on the influence of leverage, profitability, and firm value on share prices. Multiple regression analysis using a random-effect model was employed to analyse the effect of leverage, profitability, and firm value on share prices and the role of inflation as a moderator. The analysis results show that firm value has a significant positive effect on share prices. Meanwhile, leverage and profitability do not have a significant effect. Inflation can only moderate the influence of firm value on share prices. This research contributes to determining company policies regarding improving financial performance and as a reference for the government in determining macroeconomic policies.

Keywords: *inflation, leverage, Sharia*

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1. INTRODUCTION

The Sharia capital market in Indonesia is experiencing rapid development. The index on the Jakarta Islamic Index (JII) tended to increase from 2018 to 2020. At the end of 2018, the index was at level 578.36. This number increased by 18.85% at the end of 2019 to 687.54. However, the JII index experienced a slight decline of 17.98% due to COVID-19 in 2020. Moreover, the JII index rose by 6.22% from 563.91 in 2020 to 599.13 in 2021. Furthermore, according to Otoritas Jasa Keuangan (2023b), the total *Sharia* capital market assets reached 6213.48 trillion rupiah, consisting of *Sharia* shares, mutual funds, corporate *sukuk*, and government *sukuk*. In addition, the number of *Sharia* shares has also increased from 435 at the end of 2019 to 552 at the end of 2022 (Otoritas Jasa Keuangan, 2023a).

The development of the number of *Sharia* share transactions is also inseparable from the *Sharia* share price movements, which various factors, including the level of leverage, profitability, and firm value, can influence. Company policy, industry competition, economic conditions, and financial performance influence share prices. Financial performance, measuring leverage, profitability, and firm value, is a factor that can influence share price fluctuations. Table 1 presents the average share prices, leverage, profitability, and firm value of companies listed on JII from 2018 to 2022. The data in this table has been processed from various sources, including the Indonesia Stock Exchange and Bank Indonesia. According to Table 1, share prices decreased by about 21%, from Rp 6.316 in 2018 to Rp 4.987 in 2022. Moreover, leverage also decreased from 1,06 in 2018 to 0,72 in 2022. Profitability declined from 16% in 2018 to 9% in 2020, then increased to 24% in 2021. Furthermore, firm value decreased from Rp 410 in 2018 to Rp 269 in 2020. This number then increased in 2022. Hence, Table 1 demonstrates leverage, profitability, and firm value fluctuations, which may

affect share prices. Additionally, Table 1 shows that the average inflation decreased from 3.13% in 2018 to 1.87% in 2021. The movement of inflation may also impact the share price movements.

Table 1
The Average Share Prices, Leverage, Profitability, Firm Value, and Inflation of Companies Listed on the Jakarta Islamic Index from 2018 to 2022

Variable	2018	2019	2020	2021	2022
Share Prices (in rupiah)	Rp. 6.316	Rp. 5.073	Rp. 5.568	Rp. 4.763	Rp. 4.987
Leverage (DER)	1,06	1,07	0,90	1,47	0,72
Profitability (ROE)	16%	15%	9%	24%	13%
Firm Value (EPS)	Rp. 410	Rp. 375	Rp. 269	Rp. 407	Rp. 539
Inflation	3.13%	2.72%	1.68%	1.87%	5.51%

Sources: Author Calculation (2018-2022)

Numerous studies have been conducted on the influence of leverage on share prices. Hashim & Shahrumzaki (2020) discussed the influence of leverage on the food and beverage sector share prices in Malaysia, and they found that leverage has no significant influence on the share prices. On the other hand, Ratih et al. (2016) found a negative and significant influence of leverage on share prices, as estimated by the debt-to-equity ratio (DER). Togatorop et al. (2019) analysed the influence of leverage on stock prices in Indonesian service and investment companies from 2015 to 2018. They demonstrated that leverage has a negative and significant impact on share prices. Moreover, previous researchers have studied the impact of profitability on share prices. Hujra et al. (2014) found that profitability has a positive but insignificant impact on share prices. Meanwhile, Novita et al. (2022) showed that profitability positively and significantly affects share prices. Furthermore, the effect of firm value on share prices has also been discussed in previous studies. Mujino et al. (2021) revealed that firm value, estimated by earnings per share (EPS), positively and significantly impacts share prices. On the other hand, Ginsu et al. (2017) found that EPS has a positive but insignificant effect on share prices. Additionally, Hastiningsih (2019) revealed that EPS has a negative but insignificant influence on share prices.

Based on the previous studies, there are varying results regarding the influence of leverage, profitability, and firm value on share prices. In other words, the findings are inconsistent. It may be due to the lack of accuracy of the research methods used, such as the lack of data used as a sample, inaccurate measurements or analysis techniques, and a lack of attention to other factors or variables that can influence stock prices. Therefore, it is imperative to conduct further research to analyse the impact of leverage, profitability, and firm value on the share prices of companies listed on JII from 2018 to 2022. This further research used moderating variables to identify whether other variables could strengthen or weaken the influence of leverage, profitability, and firm value on share prices.

Other macroeconomic factors, besides leverage, profitability, and firm value, can affect share price movements (Dalimunthe, 2015; Mohammad & Ghauri, 2014; Ramadhan et al., 2023). Inflation is one of the macroeconomic factors that can affect share price movements. Many researchers have researched the influence of inflation on share prices (Agustin et al., 2023; Rahma & Desitama, 2023; Wintan et al., 2023). Moreover, numerous previous studies have discussed the impact of inflation on leverage (Hortlund, 2005; Setiabudi & Agustia, 2012; Sihombing et al., 2023). Research regarding the effect of inflation on profitability has also been examined by prior studies (Batsinda & Shukla, 2019; Sihombing et al., 2023; Katırcıoglu et al., 2020). Indeed, the influence of inflation on firm value, measured by EPS, has also been studied by previous researchers (Hendayana & Riyanti, 2020; Isma et al., 2023; Sumaryoto et al., 2022). Galih & Indah (2021) examined the role of inflation as a moderator in the influence of profitability and leverage on financial distress. They found that inflation successfully moderates leverage's influence on financial distress. Meliza (2021) analysed the role of inflation as a moderator in the influence of banking risk on share prices. Previous studies also discussed the role of inflation as a moderator. Meliza (2021) found that inflation could moderate the influence of liquidity risk on share prices. Ilmiani & Meliza (2022) discussed the role of inflation as a moderator of the relationship

between banking risk and the efficiency of Indonesian state-owned banks. They revealed that inflation could moderate the relationship between credit risk and efficiency, but it fails to moderate the relationship between liquidity risk and efficiency. However, few studies have delved into the role of inflation as a moderator in the influence of leverage, profitability, and firm value on share prices. Hence, this research also examines the role of inflation as a moderator in the influence of leverage, profitability, and firm value on share prices.

The signalling theory suggests that signals are instructions, and the owner of the information tries to provide relevant information that can be utilised by the recipient (Spence, 1973). It states the importance of information for investors because it provides a picture of past, current, and future conditions regarding the company's business prospects. The theory explains how companies provide signals to users of financial reports. This research employed the signalling theory to elucidate the influence of leverage, profitability, and firm value on share prices, following Nurwulandari & Wahid (2023), Satryo et al. (2016), and Sukesti et al. (2021). In this research, the signalling theory will explain how companies provide information regarding the company's financial performance to investors. This circumstance can affect the number of investors buying and selling shares and ultimately impact the company's share prices.

Share price is the price of shares traded on the stock exchange, determined by the number of requests and offers for the shares on the capital market (Sukesti et al., 2021). The share price reflects the present value of the future cash flows that shareholders will receive (Christine & Apriliana, 2021). The more investors buy a company's shares, the higher the company's share price will be. Nevertheless, if there is an increase in the number of shares sold by investors, the company's share price tends to decrease (Sjahriza Afie & Djawoto, 2021).

Increasing company leverage can reduce share prices. A high level of leverage can increase interest costs and bankruptcy risks. It can reduce the demand for shares and lower share prices. Conversely, decreasing the level of leverage can reduce interest costs and bankruptcy risks. This situation leads to increased demand for shares and higher share prices. The influence of leverage on stock prices can be explained through the signalling theory. A higher level of leverage indicates a higher company's risk; this condition sends a negative signal to investors, decreasing their interest in buying shares in the company. Moreover, some previous studies have extensively discussed the influence of leverage on share prices. Ratih et al. (2016) examined the impact of DER as a leverage indicator on the share prices of mining companies in Indonesia from 2010 to 2012. They found that DER has a negative influence on stock prices. Farooq & Masood (2016) explored the influence of leverage on the share prices of cement companies in Pakistan from 2005 to 2015 and demonstrated that leverage negatively impacts share prices. Hence, the first hypothesis of this research is that leverage has a negative and significant influence on share prices.

Profitability is also a critical factor influencing share prices. The signalling theory is used to explain the relationship between profitability and stock prices. The higher the level of profit obtained by the company, the higher the share prices. Increasing profit can increase investors' confidence in investing in the company's shares, which is a positive signal. The increasing number of share sales has an impact on increasing share prices. Previous researchers have extensively examined the impact of profitability on share prices. Auliya & Yahya (2020) investigated the influence of profitability on the share prices of food and beverage companies in Indonesia from 2015 to 2019. They revealed a positive and significant impact of profitability on the share prices. Furthermore, Christine & Apriliana (2021) analysed the effect of profitability on the stock prices of banking companies in Indonesia from 2012 to 2014. They also found that profitability positively and significantly affects stock prices. Abdallah (2014) examined the influence of profitability on share values in industrial companies listed on the Saudi Stock Market from 2009 to 2012. Abdallah (2014) demonstrated that profitability positively and significantly influences the share values. Hujra et al. (2014) discussed the influence of post-tax profit as a profitability indicator on the share prices of 63 companies on the Karachi stock exchange. They found that post-tax profit positively and significantly influences share prices. Additionally, Novita et al. (2022) also addressed the impact of profitability on the stock prices of consumer goods companies in Indonesia from 2015 to 2020. They revealed a positive and significant impact of profitability on stock prices. Abror & Nuzulia (2022)

discussed the impact of profitability on share prices, revealing that profitability impacts the share prices. Therefore, the second hypothesis of this research is that profitability has a positive and significant influence on share prices.

As measured by EPS, firm value can influence share prices. The higher the profit per share, the greater the demand for the shares, which can increase the share prices. Conversely, the lower the profit per share, the lower the profits obtained by shareholders; this decreases demand and share prices. The influence of firm value on stock prices is explained using the signalling theory. A high firm value indicates that the company is performing well. This condition produces a positive signal for investors and can increase shares and share prices. Previous studies have demonstrated that firm value, calculated by EPS, affects stock prices. Kumar (2017) analysed the effect of EPS on eight companies in the auto sector in India from 2011 to 2016. He showed that EPS has a positive and significant effect on stock prices. Moreover, Sari (2021) examined the impact of EPS on the stock prices of publicly listed companies on the Indonesian stock exchange from August to October 2020. She revealed that EPS positively and significantly impacts stock prices. Furthermore, Daniswara & Daryanto (2019) analysed the influence of EPS on the stock prices of 20 companies listed on the LQ45 index from 2014 to 2018. Their analysis revealed that EPS also positively and significantly influences share prices. Hence, the third hypothesis of this research is that firm value has a positive and significant influence on share prices.

Inflation can affect company performance and stock prices. Increasing inflation leads to decreasing performance and reduces the number of shares purchased and the share prices. Inflation can affect short-term and long-term economic growth (Widiaty & Nugroho, 2020). Furthermore, an increase in inflation can lead to decreasing share prices. Previous studies have also demonstrated that inflation can impact leverage and share prices. Setiabudi & Agustia (2012) examined the relationship between inflation and leverage in manufacturing companies listed on the Indonesia Stock Exchange from 2005 to 2009. They found a positive relationship between inflation and leverage. Additionally, Hortlund (2005) revealed that inflation could increase a bank's debt.

Batsinda & Shukla (2019) discussed the impact of inflation on the profitability of commercial banks in Rwanda from 2011 to 2015. They revealed that inflation has a positive and significant influence on profitability. Azmi et al. (2022) examined the effect of inflation on profitability and showed that inflation has a positive and significant effect on profitability.

Hendayana & Riyanti (2020) analysed the influence of inflation on the firm value of plantation companies in Indonesia from 2012 to 2017. They found that inflation has a significant influence on firm value. Moreover, Sumaryoto et al. (2022) also discussed the effect of inflation on the firm value of real estate and property companies in Indonesia. They found that inflation has a positive and significant effect on firm value. Nevertheless, Isma et al. (2023) also analysed the impact of inflation on the firm value of consumer firms in Indonesia from 2016 to 2021. However, they found that inflation has a negative impact on firm value.

Wintan et al. (2023) discussed the influence of inflation on the share prices of pharmaceutical companies listed on the Indonesia Stock Exchange from 2014 to 2021. They found that inflation does indeed influence share prices. Amanda et al. (2023) analysed the impact of inflation on the share prices of transportation companies listed on the Indonesia Stock Exchange from 2018 to 2020. They found that inflation has a positive and significant effect on share prices. Hence, the fourth hypothesis of this research is that inflation moderates the influence of leverage on share prices. Furthermore, the fifth hypothesis of this research is that inflation moderates the influence of profitability on share prices. In addition, the sixth hypothesis of this research is that inflation moderates the influence of firm value on share prices.

The first section of this research provides an introduction and literature review regarding the influence of leverage, profitability, and firm value on share prices and the moderating role of inflation. The second section will detail the methodology using multiple linear regression. The third section will present the results of the regression analysis. The final section will encompass the conclusion, recommendations, and limitations.

2. RESEARCH METHOD

The sample for this research comprises 29 companies listed on JII from 2018 to 2022. The sampling criteria are companies listed on JII from 2018 to 2022 and publish their annual reports.

The study employed three independent variables. The first independent variable is leverage, calculated

using DER as defined by Farooq & Masood (2016). The second independent variable is profitability, assessed using Return on Assets (ROA) as an indicator, following the methods of Ginsu et al. (2017), Mujino et al. (2021), and Afni et al. (2023). The last independent variable is firm value, measured by EPS, following Sari (2021). The dependent variable in this research is share prices.

This research employed multiple regression analysis using the random-effect (RE) model to estimate the influence of leverage, profitability, and firm value on share prices. Additionally, this regression analysis was applied to measure the role of inflation as a moderator.

The first equation, estimating the influence of leverage, profitability, and firm value on share prices, is represented as:

$$Share\ Price = \beta 0 + \beta 1\ Leverage + \beta 2\ Profitability + \beta 3\ Firm\ Value + \varepsilon i \quad \ldots\ldots (1)$$

The second equation estimates the role of inflation as a moderator variable in the influence of leverage, profitability, and firm value on share prices:

$$Share\ Price = \beta 0 + \beta 1\ Leverage + \beta 2\ Profitability + \beta 3\ Firm\ Value + \beta 4\ Inflation + \beta 5\ Leverage.Inflation + \beta 6\ Profitability.Inflation + \beta 7\ Firm\ Value.Inflation + \varepsilon i \quad \ldots\ldots (2)$$

This research also employed five tests: normality test, multicollinearity test, heteroscedasticity test, Lagrange multiplier test, and Hausman test. A normality test using the Shapiro-Wilk test was utilised to assess the normality of the data, following the approach outlined by Meliza (2023). If the significance value is greater than 0.05, then the data distribution meets the normality assumption. Variance Inflation Factor (VIF) was utilised to test for multicollinearity, aligning with the methodology proposed by Zafrizal et al. (2021). If the VIF value is smaller than 10 or the tolerance value is greater than 0.01, this condition indicates that multicollinearity does not occur. The Breusch-Pagan test was applied to detect heteroscedasticity, following the method described by Meliza (2021). If the significance value is greater than 0.05, heteroscedasticity does not occur; conversely, there is heteroscedasticity if the significance value is less than 0.05. The Lagrange multiplier test determined the best model between common and random effects. The common-effect estimation model is better if the significance value is greater than 0.05. On the other hand, if the significance value is less than 0.05, it is better to use the random-effect model. In addition, the Hausman test was also used to determine a better regression model between the random-effect and fixed-effect models.

3. RESULTS AND DISCUSSION

3.1. Results

3.1.1. Descriptive Statistics

Table 2 presents the results of the descriptive statistics. According to Table 2, the mean value of the share prices is approximately 5,878.3. The minimum share price value is around 50, while the maximum is about 45,400. This data shows a wide range between the highest and lowest stock prices. Leverage has a mean value of about 0.84. The maximum value is approximately 3.58, while the minimum is about 0.01. It shows that some companies have a relatively high level of leverage or far above the average leverage value. Moreover, profitability has a mean value of about 0.17. The minimum value of profitability is around 0.02. On the other hand, the maximum value of profitability is about 1.45. Furthermore, the mean value of firm value is about 197.8. The maximum firm value is 997, while the minimum value is 197.8. Firm value tends to have disparities. Some companies have firm values below the average. However, some firms have a much greater firm value. Additionally, inflation has a mean value of about 2.99. The maximum inflation value is 5.51, while the minimum value is approximately 1.68. These results show that inflation tends to be in stable fluctuations.

Table 2
Descriptive Statistics

Variable	Observation	Mean	Min	Max
Share prices	147	5878.3	50	45,400
Leverage (DER)	147	0.84	0.01	3.58
Profitability (ROE)	147	0.17	0.02	1.45
Firm Value (EPS)	147	197.8	-308	997
Inflation	147	2.99	1.68	5.51

3.1.2. The Influence of Leverage, Profitability, and Firm Value on Share Prices

The normality test results using Shapiro-Wilk show that the significance value of each variable is more than 0.05. Share prices have a significance value of 0.66. Leverage obtained a significance value of 0.823. The Shapiro-Wilk significance value for profitability is 0.576, and the firm value is 0.868. In

addition, inflation as a moderating variable obtained a Shapiro-Wilk significance value of 0.859.

Table 3 displays the results of the VIF analysis for the influence of leverage, profitability, and firm value on share prices. Leverage, estimated by DER, has a VIF of approximately 1.08. Additionally, profitability, assessed by return on equity (ROE), has a VIF of about 1.06. Furthermore, firm value, measured by EPS, has a VIF value of around 1.03. Overall, the VIF scores for all variables are below 10. It indicates that the regression model is free from multicollinearity problems.

Table 3
Variance Inflation Factor (VIF)

Variable	VIF
Leverage (DER)	1.08
Profitability (ROE)	1.06
Firm Value (EPS)	1.03

Table 4 reveals the impact of leverage, profitability, and firm value on share prices. Leverage exhibits a positive but insignificant effect on share prices, with a *t*-statistic value of approximately 1.26. Similarly, profitability positively affects share prices, but this effect is not statistically significant, with a *t*-statistics value of 0.89. In contrast, firm value has a positive and highly significant effect on share prices, with a *t*-statistics value of 9.36, significant at the 1% level. Additionally, the probability value of the Breusch-Pagan test is about 0.322. It indicates that the regression model is free from heteroscedasticity problems.

Table 4
Dependent Variable: Share Prices

Variable	Coefficient Estimates	*t*-statistics
C	7.4	32.64***
Leverage (DER)	0.099	1.26
Profitability (ROE)	0.068	0.89
Firm Value (EPS)	0.003	9.36***
Adjusted R-square	0.456	
F-test (*p*-value)	0.000	

Note: (*) indicates significant at 10%, (**) indicates significant at 5%, (***) indicates significant at 1%

The value of the Lagrange multiplier test is about 0.00; this value shows that the random-effect model is better employed than ordinary least squares (OLS). In addition, the value of the Hausman test is about 0.419 or higher than 0.05. This result indicates that the random-effect model is better applied than the fixed-effect model.

The analysis shows that the leverage of companies listed on JII has an insignificant influence on share prices. This result contradicts Ratih et al. (2016) and Farooq & Masood (2016). Moreover, this result is also inconsistent with the signalling theory. An insignificant effect between leverage and stock prices may have occurred because companies listed on JII that have high levels of liquidity, such as Ace Hardware Indonesia Tbk, Adaro Energy Indonesia Tbk, AKR Corporindo Tbk, Kalbe Farma Tbk, Unilever Indonesia Tbk, and others. Hence, the high level of liquidity makes their internal funds sufficient to meet investment needs (Dewi, 2015).

Moreover, profitability estimated by ROE also has an insignificant effect on share prices. This result is inconsistent with Abdallah (2014), Auliya & Yahya (2020), and Novita et al. (2022). Furthermore, this result does not align with the signalling theory, stating that the worse the company's performance is, the lower the demand and stock prices will be. This result indicates that the effectiveness of the company's use of equity in generating net profit after tax is not a reference for investors when making investment decisions. There may be other factors, such as the company's ability to pay dividends and sales growth, that investors pay attention to when deciding to buy or sell shares.

Meanwhile, firm value, estimated by EPS, positively and significantly influences share prices. EPS describes the company's ability to generate profits per share owner. The greater the EPS value, the more profitable it is for shareholders. It happens because the more profitable a company is, the higher the level of profits the company distributes to shareholders (Sari, 2021). Therefore, EPS is a reference for investors when investing in shares. The EPS value describes the company's profitability by looking at the net profit generated. The EPS value is essential for investors because it provides an overview of a company's profits and losses in a certain period so that investors can evaluate its performance and calculate fair share prices. The higher the EPS, the greater the share demand, which can increase the share prices. On the other hand, the lower the EPS, the smaller the profits shareholders obtain. It causes a decrease in demand for these shares. This result is consistent with the signalling theory, which states that higher EPS indicates better company performance in

generating profits for shareholders, ultimately leading to increased share prices. In addition, the positive and significant influence of EPS on share prices is consistent with Sari (2021).

3.1.3. The Role of Inflation as a Moderator in the Influence of Leverage, Profitability, and Firm Value on Share Prices

Table 5 displays the results of the VIF analysis for the role of inflation as a moderator in the influence of leverage, profitability, and firm value on share prices. Leverage, estimated by DER, has a VIF of approximately 1.08. Moreover, profitability, assessed by ROE, has a VIF of about 1.06. Additionally, firm value, measured by EPS, has a VIF value of around 1.03. Furthermore, inflation, as a moderator variable, has a VIF value of about 2.85. The interaction between leverage and inflation has a VIF value of approximately 3.74. Meanwhile, the interaction between profitability and inflation generates a VIF of about 6.93, and the interaction between firm value and inflation produces a VIF value of about 6.24. Overall, all variables have VIF values lower than the threshold. These results indicate that there is no multicollinearity problem in this regression model.

Table 5
Variance Inflation Factor (VIF)

Variable	VIF
Leverage (DER)	1.08
Profitability (ROE)	1.06
Firm Value (EPS)	1.03
Inflation	2.85
Leverage*Inflation	3.74
Profitability*Inflation	6.93
Firm value*Inflation	6.24

Table 6 displays the regression results for the influence of leverage, profitability, and firm value on share prices, with inflation as a moderator. Table 6 shows that leverage exhibits a positive but insignificant influence on share prices, with a *t*-statistics value of about 0.38. On the other hand, profitability, assessed by ROE, shows a negative influence on share prices, with a *t*-statistics value of approximately -0.01. However, this influence is not significant. Similarly, firm value demonstrates a positive but insignificant influence on the share prices. Furthermore, Table 6 reveals that inflation only moderates the influence of firm value on share prices. The *t*-statistic value for this interaction is approximately -2.47, which is statistically significant at the 5% level.

Table 6
Dependent Variable: Share Prices

Variable	Coefficient Estimates	*t*-statistics
C	7.76	22.43***
Leverage (EPS)	0.055	0.38
Profitability (ROE)	-0.0005	-0.01
Firm Value (EPS)	0.001	1.69
Inflation	-0.218	-2.47**
Leverage*Inflation	0.087	0.14
Profitability*Inflation	0.079	0.47
Firm Value*Inflation	0.0007	2.47**
Adjusted R-square	0.470	
F-test (*p*-value)	0.000	

Note: (*) indicates significant at 10%, (**) indicates significant at 5%, (***) indicates significant at 1%

The Lagrange multiplier test is also employed in this regression model. The value of this test is about 0.00 or lower than 0.05. Hence, this value indicates that the random-effect model is better applied than ordinary least squares (OLS). Indeed, the value of the Hausman test is about 0.449 or higher than 0.05. This result shows that the random-effect model is better applied than the fixed-effect model.

3.2. Discussion

Inflation can moderate the influence of firm value on share prices. Inflation can enhance the influence of firm value on share prices. This result also shows that inflation can affect the value of companies and stock prices. This finding is in line with Hendayana & Riyanti (2020), Sumaryoto et al. (2022), Isma et al. (2023), Amanda et al. (2023), and Wintan et al. (2023). Inflation can lead to an increase in production costs. As a result, companies may raise the selling price of their products and services, which can increase their profits. The increase in company profits can ultimately increase firm value, measured by EPS.

Moreover, inflation fails to moderate the relationship between leverage and share prices. It indicates that inflation cannot affect leverage and stock prices. It is because the company uses a small amount of debt, so inflation does not significantly affect the interest paid and ultimately does not impact share prices.

Furthermore, inflation also fails to moderate the influence of profitability on share prices. While inflation may impact a company's net profit and the

effectiveness of using equity to generate profits, ROA is not the only indicator investors use to assess company performance. Therefore, this does not significantly impact share prices. This result does not align with Azmi et al. (2022) and Batsinda & Shukla (2019).

4. CONCLUSION

This research examines the influence of leverage, profitability, and firm value on the share prices of companies listed on JII from 2018 to 2022. This research also analyses the role of inflation as a moderator variable in the influence of leverage, profitability, and firm value on share prices. This research applies multiple regression analysis to estimate the influence of leverage, profitability, and firm value on share prices. This regression analysis is also employed to examine the role of inflation as a moderator. The regression analysis shows that leverage has a positive but insignificant influence on share prices. The use of small amounts of debt does not affect the company's leverage ratio or impact the demand and supply of shares. Like leverage, profitability also has an insignificant effect on share prices. Furthermore, firm value has a positive and significant impact on share prices. The movement of EPS indicates the movement in the profit given to shareholders. It influences investors' decisions when buying or selling shares, impacting share price movements. In addition, inflation can moderate the relationship between firm value and share prices. Inflation can increase a company's production costs, impacting the company's opportunity to raise selling prices and profits. This situation can lead to higher company profits and, ultimately, an increase in firm value. This research can serve as a reference for companies in managing their debt, income, and profits to impact share price movements positively. It can also be used as a reference for the government in controlling inflation and formulating macroeconomic policies. This research only estimates leverage, profitability, and firm value as factors affecting share prices. Many other factors, such as liquidity, company size, and the implementation of good corporate governance, may also influence share prices. Furthermore, this research only employs inflation as a moderator variable. However, macroeconomic factors like interest and exchange rate fluctuations may influence share prices.

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