Global Scientific and Academic Research Journal of Economics, Business and Management
ISSN: 2583-5645 (Online)
Frequency: Monthly
Published By GSAR Publishers
Journal Homepage Link- https://gsarpublishers.com/journals-gsarjebm-home/

Stock Return Perspective on Companies Listed in Indonesia Stock Exchange

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Article History

Received: 01/12/2023
Accepted: 06/12/2023
Published: 08/12/2023

Vol – 2 Issue – 12

PP: -12-16

Abstract

Stock returns are one of the factors that motivate investors to invest and are also investment results obtained over a certain period. This research aims to examine the influence of liquidity, economic value added, debt to equity ratio, and return on assets on stock returns in food and beverage companies listed on the Indonesia Stock Exchange in 2020-2022. The sample for this study was 27 companies determined using the purposive sampling. The period of this study was 3 years so the total number of observations was 81 data. The theories used in this study is signaling theory. The data analysis technique used in this study is multiple linear regression analysis. The results in this study show that the variables liquidity and earnings per share have a positive effect on stock returns. Meanwhile, the variables economic value added, debt to equity ratio and return on assets have no effect on stock returns.

***Keywords English**: Stock Return, Economic Value Added*

INTRODUCTION

In the current industrial era, the development of the business world in Indonesia has increased so rapidly. Competition between one company and another company is increasingly competitive, both the main sector, manufacturing and services. Intense competition requires companies to further develop their business strategies and be able to survive on the competitive path. Maintaining and improving performance is one of the efforts to maintain business continuity in order to avoid bankruptcy and excel in competition. In addition to making a profit, every company has a goal to maximize the value of its business.

The purpose of investors investing in stock securities is to get a certain return with a low level of risk. In choosing an investment, the rate of return is the main thing that must be considered by investors because return is the result obtained from an investment. One type of securities that is popular among the public today is stocks. Shares are securities as proof of individual or institutional ownership in a company. According to Alfaro., *et al* (2020), shares are one of the sources of funds obtained by companies that come from capital owners with the consequence that the company must pay dividends.

In other words, the level of profit obtained by investors on an investment they make is called stock return. In capital market theory, the term return is the rate of return received by investors from stocks traded in the capital market. In the world of investment, there are two types of returns, which can be in the form of realized or existing returns and expected returns or those that have not occurred but are expected to occur in the future. Realized return is a return that has occurred and is calculated based on historical data. This return can be an indicator in assessing future expected returns and is usually used to assess company performance.

Usually, investors who want to invest will measure their financial performance by analyzing the company's financial statements that are the focus of investors to invest. Measurement of company performance is generally done by investors using information provided in financial statements. The goal is that investors can assess whether or not they are worthy of investing in the company concerned and ensure that the investment will provide returns as they expect. One analysis that is usually used to assess the performance of a company is to conduct a financial ratio analysis. Financial ratios are one of the fundamental analysis tools that investors often use in assessing the shares of a company or in making an investment decision because financial ratios can see the estimated cash flow generated by a company, so investors can assess the health of the company concerned. Financial statement analysis is an analytical method that relates a number to other numbers on the financial statements to determine the relationship of certain items in the balance sheet or income statement individually or in combination. The

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analysis techniques that are usually used to measure financial performance are liquidity, Economic Value Added (EVA), Debt to Equity Ratio (DER), and Return on Asset (ROA).

Morozva (2020); Dang &; Nguyen (2020) explained that liquidity has a positive effect on stock returns. However, in contrast to the results of research conducted by Razak, et al (2023); Bae &; Kim (2020), it is explained that liquidity negatively affects stock returns. Besides, use of EVA techniques leads companies to focus their attention on growing the company's added value. Amna (2020) and Silalahi and Manullang (2021) stated that Economic Value Added has a positive effect on stock returns. However, Agrawal, et al (2019) stated that Economic Value Added negatively affects stock returns.

DER can provide an overview of the capital structure owned by the company so that it can be seen the level of risk of non-payment of a debt. Sausan, et al (2020); Utami &; Darmawan (2019) it is explained that DER has a positive effect on stock returns. However, Kurniawan (2021); Devi &; Arini 2019 concluded that DER negatively affects stock returns. While retated to ROA is a company's financial ratio that measures the company's ability to generate profits or profits at certain levels of income, assets, and share capital. Aminah (2021); Saputra (2022) concluded that ROA has a positive effect on stock returns. However, according to Nadyayani &; Suarjaya (2021) concluded that ROA has a negative effect on stock returns. So the aim of this research is to determine the characteristics that can influence stock returns.

LITERATURE REVIEW

Signalling Theory

This signal theory emphasizes the importance of information released by companies on investment decisions. This states that the company's management is trying to provide relevant information that can be utilized by investors. Signals can be in the form of financial or non-financial information stating that the company is better than other companies. Investors invest with the expectation of profit (return), so investors need clear information about a company. If a company does not have clear information, then investors tend to avoid investing in the company. The information is usually in the form of annual financial statements that contain information on the state of the company, past records and can also reflect the performance of a company. Complete, accurate, relevant, and timely information is needed by investors as an analytical tool to make investment decisions. A good quality company will give a signal to the market, so the market is expected to distinguish good and bad quality companies. Profits and losses generated by a company will be good and bad news in the capital market, where profits will provide positive signals that will attract investors and vice versa.

The annual report is one of the information that can provide signals for investors. A good and reliable annual report will help investors assess the company's financial ratios such as liquidity ratios will provide important information about how a company's ability to meet its financial obligations in the short term. The higher the company's liquidity, the greater the company's ability to meet its short-term obligations. Thus, a high liquidity value will give a positive signal to investors who want to invest.

Hypothesis Development

Christine &; Apriliana (2021) stated that liquidity is a financial ratio that measures a company's ability to meet short-term obligations smoothly and on time. The higher the company's liquidity, the better the company is at maintaining its daily operational balance. This is in accordance with signal theory, where the higher the liquidity of a company, it will provide good signals or good news to investors. This will attract investors to invest, which will then affect the stock price so that increasing stock prices will increase the return that will be obtained by investors. Morozva (2020); Dang &; Nguyen (2020); Lim &; Choi (2022) which explained that liquidity has a positive effect on stock returns. The hypotheses developed is:

H1: liquidity has positive effect on stock return

The company is able to enrich its shareholders if the rate of return generated is greater than the cost of capital. It is explained that investor shareholders prefer to use EVA because the residual profit left over from the overall cost of capital results including the cost of equity after deduction is reflected in the EVA. The increase in EVA of a company means that the company's performance is getting better and it is a company's achievement which will further increase the stock price and then have an impact on the return of its shareholders This is in accordance with signal theory where the company will signal in the form of information about the high EVA value will show that the company's performance is good, thus resulting in increased stock returns. Amna (2020), Silalahi &; Man-ullang (2021), and Rahman (2022) which states that EVA has a positive effect on return stock. The hypotheses developed is:

H2: EVA has positive effect on stock return.

DER is a ratio that shows the company's ability to meet obligations indicated by how much part of its own capital is used to pay debt. A low DER will increase the positive response from the market and indicate the company's better ability to pay long-term obligations because the risk posed by the use of funding sourced from debt will be reduced, so the stock price will rise. An increase in stock prices will trigger an increase in stock returns. This is in accordance with signal theory, where a company will provide good signals in the form of information about low DER will attract investors to invest, thus impacting stock prices that will increase and be followed by high stock returns. Kurniawan (2021); Devi &; Arini 2019 which states that DER negatively affects stock returns. The hypotheses developed is:

H3: DER has negative effect on stock return.

With the increase in ROA value, it illustrates the company's performance that is getting better and as a result, the company's stock price is increasing. With the increase in stock price, the return on shares of the company concerned also increases. This is in accordance with signal theory, where the higher the ROA value of a company, it will provide good signals or good news to investors. This will attract investors to invest, which will then affect the stock price so that increasing stock prices will increase the return that will be obtained by investors. Aminah (2021); Saputra (2022); Handayani, et al (2022) which states that ROA has a positive effect on stock returns. The hypotheses developed is:

H4: ROA has positive effect on stock return.

RESEARCH METHOD

The population in this study is all food and beverage companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022, which is 87 companies. The sampling technique in this study was purposive sampling. Based on the criteria that have been set, the number of research samples was obtained as many as 27 food and beverage companies with a 3-year observation period. The analysis technique used in this research is multiple regression. The multiple regression equation used is: RS = a + b1CR + b2 EVA + b3DER+ b4ROA + e

Stock return is the level of income obtained from the difference in the price of shares in the previous year. Stock returns can be in the form of capital gains (losses) (Shanti, et al. 2022). CR is the ratio of current assets to short-term liabilities. CR is a ratio to measure the company's ability to pay short-term obligations or debts that are immediately due when they are billed as a whole (Kasmir, 2019: 134). Economic Value Added is the economic profit that an enterprise generates after deducting all capital costs. DER is a ratio used to assess debt to equity (Kasmir, 2019: 159). This ratio is used to measure the extent to which a company's assets are financed with debt. ROA is a ratio that measures the rate of return of the business on all existing assets, in other words, this ratio describes the efficiency of using company funds.

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistics provide an overview or description of the overall data such as the mean, maximum, minimum, and standard deviation values of each variable in Table 1

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
CR	0.347	13.309	2.432	2.549
EVA	-8.969	1.682	-0.281	1.264
ROA	-0.216	0.599	0.064	0.105
DER	0.109	17.037	1.507	2.621
Stock return	-0.993	26.016	0.489	3.285

Based on Table 1. The company's CR value used as a sample has a considerable range between the lowest and highest CR values with a deviation of 2,549. This indicates that the company's liquidity condition has a big difference. Similar conditions occur in DER which has the lowest value difference with the highest having a deviation of 2.621. Companies sampled had an average DER of 1,507 percent. The variable EVA and ROA deviation ranges owned by the companies sampled have lower ranges of 1.264 and 0.105. While the stock return has the largest deviation range between the highest and lowest values of 3,285.

Multiple Linear Regression Analysis

Based on the results of the analysis, the results of hypothesis testing are shown in Table 2 below:

Table 2. Analysis Results

Variable	Coefficient	t-count	Significance
CR	0.759	2.147	0.035*
EVA	0.014	1.967	0.048
ROA	0.230	2.007	0.039
DER	-0.204	-1.789	0.091**
Constant -0.034			
R Square 0.209			
Adjusted R Square 0.156			
Sig F 0.03			

Note: Sig level 0.05* and Sig level 0.1**

Based on the results of the analysis in Table 2 shows that CR has a positive effect on stock returns at the level of 5 percent. The results of this study are in accordance with the signal theory which states that the higher the liquidity of a company, it will give a good signal to investors to invest in the company. Companies that are able to pay off short-term obligations mean that the company's performance is good. Liquidity has value, which means that the more liquid a company is, the less likely it is that the company will have difficulty paying off debts or buying necessary assets. The higher the level of liquidity of a company, the better the company's performance which certainly has an impact on stock returns. High liquidity has a high meaning for investors to consider in choosing shares of a Company.

In accordance with the results of the analysis shows that EVA has a positive effect on stock returns at the level of 5 percent. Signalling theory where the company will signal information about the high value of EVA will show that the company's performance is good, resulting in increased stock returns. A company is said to increase the wealth of its shareholders when the resulting rate of return is greater than the cost of capital. It is explained that investor shareholders prefer to use EVA because the residual profit left over from the overall cost of capital results including the cost of equity after deduction is reflected in the EVA. It can be concluded that the increase in EVA of a company means that the company's performance is getting better and it is a company's achievement that will

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further increase the stock price and then have an impact on the return of its shareholders.

The results of the analysis show that ROA has a positive effect on stock returns. This indicates that the higher the ROA value of a company means the better the company uses its assets to make a profit. With the increase in ROA value, it illustrates the company's performance that is getting better and as a result, the company's stock price is increasing. With the increase in stock price, the return on shares of the company concerned also increases. This is in accordance with signal theory where the higher the ROA value of a company, it will provide good signals or good news to investors. This will attract investors to invest, which will then affect the stock price so that increasing stock prices will increase the return that will be obtained by investors.

The results of the analysis related to DER show that DER has a negative effect on stock returns. This indicates that the increasing ratio of the company's debt is viewed from a negative side by investors because it is considered to have a high debt burden which will have an impact on the company's financial performance. A low DER will increase the positive response from the market and indicate the company's better ability to pay long-term obligations because the risk posed by the use of funding sourced from debt will be reduced, so the stock price will rise. An increase in stock prices will trigger an increase in stock returns. This is in accordance with signal theory where a company will provide good signals in the form of information about low DER will attract investors to invest, thus impacting stock prices that will increase and be followed by high stock returns.

CONCLUSION

In accordance with the results of the discussion which shows that investors in investing certainly expect to get a return on their investment. The return on shares obtained by investors from their investments is certainly obtained with certain considerations in making their investments in buying company shares. Some things that should be considered in accordance with the results of this research are related to the company's financial condition which is reflected in CR, EVA, ROA, and DER. By considering this, of course, it is expected to be able to maximize the investment returns obtained by shareholders.

Limitations

Adjusted R Square (R2) value of 15.6%. This shows that the effect of liquidity, economic value added, debt to equity ratio, and return on assets on stock returns of 15.6% and the remaining 84.4% is influenced by other factors outside the model. This means that there are many other factors that must be considered and considered in compiling research models related to stock returns. Researchers are then expected to consider other relevant variables that can affect stock returns.

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