Financial Performance and Stock Returns

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Abstract: The purpose of this research is to study and analyze the effect of financial performance on stock returns where financial performance is proxied by Return on Equity (ROE), Debt to Equity Ratio (DER), and Current Ratio (CR). The research was conducted at Food and Beverage sector companies listed on the IDX. The method used in this research is descriptive and verification methods. The object in this study is the financial statements of the Food and Beverage sector companies listed on the Indonesia Stock Exchange during 2016 - 2019. The results show that financial performance has no effect on stock returns in Food and Beverage sector companies listed on the Indonesia Stock Exchange during the year 2016 – 2019.

Keywords: Return on Equity (ROE), Debt to Equity Ratio (DER), Current Ratio (CR), stock return

INTRODUCTION

Stocks are one of the most sought after investment tools by investors. The aim of investors or investors to invest in stock securities is to get a high return (rate of return) but with a certain level of risk or to get a certain return with a low level of risk (Verawaty et al., 2015). Return according to Jogiyanto (2016) is the output obtained according to investment. Unexpected returns are possible, but returns or revenues are expected in the future. The effective return is used as a measure of the company’s performance. Earning earned or past income also helps with expected returns, reducing mental inaccuracies. The expected return is the rate of return that is used to make investment decisions. This rate of return is important when compared to historical rates of return because the expected rate of return is the expected return on investment.

According to Jogiyanto (2016), stock return is defined as the change in value between period t + 1 and period t plus other income that occurs during period t. You can make a profit by investing in stocks that have both a gain (loss) and a return on investment. The difference between the investment capital gain price and the gain (loss) from the previous year's price. The rate of return is the ratio of regular cash flows to the amount invested during a given investment period.

The phenomenon that occurs related to stock returns is reflected in the chart below:

![Stock Return of Food and Beverage Company Period 2017 to 2019](image)

Figure 1: Stock Return
In this graph, the share price of the Food & Beverage company listed on the Indonesia Stock Exchange fluctuated from 2017 to 2019, with several companies also recording negative returns. This means the company loses money.

Based on this, the problems in this study are the factors that affect Stock Return, such as Return On Equity, Debt to Equity Ratio, and Current Ratio.

1. OBJECTIVE OF THE STUDY

The purpose of this study is to determine whether the financial performance of Return On Equity, Debt to Equity Ratio, and Current Ratio affects the Stock Return of Food & Beverage companies in 2016-2019.

2. LITERATURE REVIEW

Financial performance

According to Rudianto (2013), performance of financial is the result or performance of the corporate's operations to manage the company effectively over a period of time. Businesses need financial performance to define and measure their financial activities.

Meanwhile, according to Fahmi (2015), financial performance is an analysis conducted to understand how well a company applies the rules of good financial performance.

To assess whether a company has good or bad financial performance, among others, perform financial ratio analysis, which is calculating by comparing a certain number in an account to numbers from other accounts in the financial statements. There are several financial ratios that are commonly used to assess a company's financial performance:

- Ratio of Profitability
- Ratio of Solvency
- Ratio of Liquidity

Fahmi (2015) states that the profitability ratio is a ratio to measure management effectiveness in general and is presented based on the amount of profit obtained from sales or investment. Return on Equity is one of the most commonly used indicators of profitability to measure financial performance. According to Sudana (2011), Return on investment Return on Equity refers to the corporate's ability to generate profit after tax from shares. This relationship is important for shareholders to determine the effectiveness and efficiency of the company's capital management. The higher this ratio, the more efficient management will use capital.

The solvency ratio according to Fahmi (2015) This ratio shows how a company can manage its debts, generate income, and pay off its debts. This percentage measures the corporate's ability to meet its long-term commitments. one of the most commonly used indicators to measure financial performance in managing long-term debt is the Debt to Equity Ratio. In other words, it is the ratio of debt to equity. This relationship compares your current liabilities and all liabilities, including total equity. This report will help you find out the income of borrowers (lenders) and entrepreneurs.

According to Fahmi (2015), the liquidity ratio is a form of risk experienced by a company due to its inability to fulfill its short-term obligations, so that it has an effect on disrupting the company's activities to a position that does not run normally. Therefore, liquidity risk is often referred to as short term liquidity risk. Thus, the current ratio is a measure of the relative ability of a company to pay its debts. Now measure is one of the most common metrics currently used to measure the financial performance of debt management.
Stock returns

The definition of shares according to Anthanasius (2012), Shares are securities in the form of a sign of ownership of a person or entity in a firm. Shares consist of 2 types, namely common stock and preferred stock. Shares are securities that are traded in the capital market, which is a sign of ownership of someone making capital participation in a firm or limited liability firm.

The definition of stock return according to Jogiyanto (2016) is the change in value between period \( t + 1 \) and period \( t \) plus other income that occurs during period, \( t \). Returns are the return on investment in capital gains (losses) and returns. The difference between the investment capital gain price and the gain (loss) from the price of the year before. The rate of return is a ratio of your regular cash income to your investment amount for a given investment period. One of the concepts of stock returns is the concept of realized return, which is a capital gain or capital loss, which is the difference between the current stock price (\( P_t \)) and the previous period's stock price (\( P_{t-1} \)). Profit is the difference from current investment relative to prices in the past period.

3. RESEARCH MODEL

In the research model (Figure 2), the independent variable is financial performance as proxied by ROE, DER, and CR and stock returns as the variable of dependent.

From the description above, the research model can be described as follows:

![Figure 2. Research Model](image)

4. HYPOTHESIS

Hypotheses can be stated as temporary answers to presumptive problems. This presumption is transient truth, which will be verified by data collected through research.

The hypothesis of this study is that the financial performance of Return On Equity (ROE), Debt to Equity Ratio (DER) and Current Ratio (CR) affects the stock returns of Food & Beverage companies listed on the Indonesia Stock Exchange 2016-2019.

5. RESEARCH METHODOLOGY

According to Zulganef (2018), research methods are systematic ways that are used to obtain information or knowledge. The method in this research is descriptive and validation. The variables examined in this study are financial performance with return on equity (ROE), Debt to Equity Ratio...
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(DER), and Current Ratio (CR) as independent variables and Return of Stock as the variable of dependent

Validity and reliability tests with $\alpha = 5\%$ were used to evaluate data quality. In this research, using panel data regression analysis method, namely panel data technique by combining cross sectional and time series data types (Gujarati (2013) in Ghozali 2017). The model can be stated as follow:

$$Y_{it} = \alpha + \beta X_{it} + \varepsilon_{it}; \ i = 1,2, ..., n; \ t = 1,2 ..., t$$

where

- $n$ = observations number
- $t$ = amount of time
- $nxt$ = amount of panel data

After regression testing, the researcher will test the hypothesis then use the t-test and calculate the coefficient of determination to evaluate the effect of financial performance as proxied by Return on Equity/ROE, Debt to Equity Ratio/DER, and Current Ratio/CR to Return of Stock.

6. DATA ANALYSIS AND INTERPRETATION

Population in general is often defined as a group of subjects or objects that are determined through certain criteria, usually identifying a phenomenon in an area. Population is defined as a collection of all elements in the population where the sample is taken (Sekaran, 2008). Population is a generalized entity / subject area with specific properties and properties identified and completed by the researcher for research. (Sugiyono, 2010). In this study, the population was 17 Food and Beverage firms that listed on the Indonesia Stock Exchange for the period 2016-2019.

The sampling method in this research using purposive sampling technique where the criteria used in sample selection in this study are:
2. A Food & Beverage company whose financial reports are published in full from 2016 to 2019 by the Indonesia Stock Exchange website (www.idx.co.id).

Descriptive Analysis

7.1.1 Development of Return on Equity (ROE)

![Average of ROE 2016-2019](image)

Figure 4.1. Graph of the Development of ROE in Food & Beverage Companies on the IDX 2016 - 2019

Source: Author data processing
So, it can be concluded based on the table and graph above which has a Return On Equity (ROE) level where the company is able to provide the best return on equity owned by MLBI and the lowest ability is owned by MGNA.

7.1.2 Test Statistics Return on Equity (ROE) to Stock Return

Hypothesis testing obtained a t-statistic of 0.6672 with a prob equal to 0.5070 greater than the significant level of significance (0.5070 > 0.05), it is accepted and rejected. The results of this analysis indicate that the first hypothesis in this study has no effect on the Company Stock Return of the Food and Beverage Indonesia Stock Exchange for the period 2016-2019. And stated that the first hypothesis is rejected.

7.1.3 Discussion The Effect of Return on Equity (ROE) on Stock Return

Based on the results of descriptive statistical calculations, the results of the prediction of companies that provide the best return on equity based on the Return On Equity (ROE) ratio, namely that the highest and lowest Return On Equity (ROE) scores of Food and Beverage Companies occurred in 2017 with the highest value of 124.14 experienced by MLBI (PT Multi Bintang Indonesia, Tbk) and in 2018 with the lowest score of -153.75 experienced by MGNA (PT Magna Investama Mandiri, Tbk). Meanwhile, the highest average value of Return On Equity (ROE) is 111.12 owned by MLBI (PT Multi Bintang Indonesia, Tbk), and the lowest average value of Return On Equity (ROE) is -99.60 owned by MGNA (PT Magna Investama Mandiri, Tbk).

Based on the author’s research, the Return on Equity (ROE) of the Food and Beverage companies listed on the Indonesia Stock Exchange from 2016-2019 has no effect. It explains that turns out that company profit which is one of the indicators of ROE calculation is not the only indicator in making stock price decisions. The cost of capital is also greatly influenced by interest rates. In addition, technical differences in calculations, company size, Indonesian money market conditions, the presence of internal factors other than economic fundamentals, interest rates, devaluation, economic growth, government spending and money supply, sales, sales growth, costs, cash dividends, social conditions, politics and economics are the factors that must be considered in determining the share price. so that the results of this study are in line with the theory and support the research conducted by Adika Rusli and Tarsan Dasar (2014) which concludes that there is no significant effect between Return on Equity (ROE) on stock returns.

7.2.1 Development of Debt to Equity Ratio (DER)

So, it can be concluded based on the table and graph above which has a Debt to Equity Ratio (DER) level where every rupiah whose own capital is used as the largest debt guarantee is owned by MGNA and the lowest is owned by IIKP.
7.2.2 Debt to Equity Ratio (DER) Statistical Test to Stock Returns

Hypothesis testing obtained a t-statistic of 0.1701 with a prob equal to 0.8655 greater than the significant level of significance (0.8655 > 0.05), then accepted and rejected. The results of this analysis indicate that the second assumption in this study, the ratio of Debt to Equity Ratio (DER), has no effect on the stock returns of Food and Beverage in Indonesia during that period. So, from 2016-2019 the second hypothesis was rejected.

7.2.3 Discussion on the Effect of Debt to Equity Ratio (DER) on Stock Returns

Based on the results of descriptive statistical calculations, companies that use debt as a capital structure are compared to their own capital based on the Debt to Equity Ratio (DER) ratio, namely that the highest and lowest value of the Debt to Equity Ratio (DER) score of Food and Beverage Companies occurred in 2018 with a value the highest amounting to 949.72 experienced by MGNA (PT Magna Investama Mandiri Tbk) and in 2019 with the lowest score, namely -184.53 experienced by MGNA (PT Magna Investama Mandiri Tbk). Meanwhile, the highest average value of Debt to Equity Ratio (DER) is 341.21 owned by MGNA (PT Magna Investama Mandiri Tbk), and the lowest average Debt to Equity Ratio (DER) of 13.67 owned by IIKP (PT Inti Agri Resources Tbk). So it can be concluded based on the results of average calculations and calculations per year at the Food and Beverage Company for the 2016-2019 period which has a Debt to Equity Ratio (DER) level where companies that use debt as the highest capital structure are owned by MGNA (PT Magna Investama Mandiri Tbk.) and IIKP (PT Inti Agri Resources Tbk).

This ratio represents the capital structure of the company causing funding. A high DER will increase the company's equity interest and have a significant impact on foreign exposure. This is because the company has paid off its debts before benefiting investors. Investors avoid stocks with very high DERs. It also reduces the demand for the company's shares, lowers the share price and returns the shares to investors.

However, there are several possibilities that cause the relationship between DER and stock returns to be insignificant, such as a small sample size, a too short study period of only 4 years and differences in the sample of companies studied. The results of this study are in line with research by Malintan (2012) which shows that DER has a negative effect on stock returns.

7.3.1 Development of Current Ratio (CR)

![Average of CR 2016-2019](image)

Figure 4.3. Graph of Current Ratio Development in Food and Beverage Companies on the IDX 2016 - 2019

Source: Author data processing
So, it can be concluded based on the table and graph above which has a Current Ratio (CR) level where the largest average asset is owned by DLTA and the lowest is owned by MLBI.

7.3.2 Current Ratio (CR) Statistical Test on Stock Returns

Hypothesis testing obtained a t-statistic of 0.5090 with a prob equal to 0.6124 greater than the significant level of significance (0.6124 > 0.05), then accepted and rejected. The results of this analysis indicate the third hypothesis in this study, namely Current Ratio (CR) has no effect on the Stock Return of Food and Beverage Companies listed on the Indonesia Stock Exchange for the period 2016-2019, so the third hypothesis is rejected.

7.3.3 Discussion on the Effect of Current Ratio (CR) on Stock Return

Seeing the results of descriptive statistical calculations, companies that have CR The high level reflects that the company is in a liquid condition, which means that the company is in a good condition to fund the company in the short term. Based on Current Ratio (CR) ratio, namely that the highest and lowest value of the Current Ratio (CR) score of the Food and Beverage Company occurred in 2017 with the highest value of 863.78 experienced by DLTA (PT Delta Djakarta Tbk) and in 2016 with the lowest value, namely 0 experienced by MGNA (PT Magna Investama Mandiri Tbk). Meanwhile, the highest average value of Current Ratio (CR) is 789.35 owned by DLTA (PT Delta Djakarta Tbk), and the lowest average Current Ratio (CR) value of 0 owned by MGNA (PT Magna Investama Mandiri Tbk). So it can be concluded based on the results of average calculations and calculations per year at the Food and Beverage Company for the 2016-2019 period which has a Current Ratio (DER) level where the company reflects that in a liquid condition which means that the company is in a good state of ability to fund the company in the short term with the highest value owned by DLTA (PT Delta Djakarta Tbk) and the lowest by MGNA (PT Magna Investama Mandiri Tbk).

In this study, the relationship between the current ratio and stock returns has no effect. This can be caused by the small number of samples, the study period is too short, which is only 4 years, and differences in the sample of companies studied. The results of this study are in line with the findings of Fitri Amalia Azzahra and Aftoni Sutanto (2016) who concluded that company registration has a negative impact on capital performance.

7.4.1 Development stock returns (SR)

<table>
<thead>
<tr>
<th>Average of Stock Returns 2016-2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
</tr>
</tbody>
</table>

Figure 4.4. Graph of the Development of Stock Returns in Food and Beverage Companies on the IDX in 2016 - 2019

Source: Author data processing

So, it can be concluded based on the table and graph above which has a Stock Return (RS) rate where each of the largest rupiah returns is owned by SKLT and the lowest is owned by IIKP.
According to Samsul, (2006), the return on investment is expressed as the return on the initial capital investment, and the return on equity capital is the return on the purchase and sale of shares. Here, gain is called return on investment and loss is defined as: Return on investment. This is called a capital loss.

7. CONCLUSION

From the results of calculations and analyzes that have been carried out in the previous chapter, it can be concluded:
1. Return on Equity (ROE) no significant effect to Stock Return;
2. Debt to Equity Ratio (DER) no significant effect to Stock Return
3. Current Ratio (CR) no significant effect to Stock Return
4. Return on Equity (ROE), Debt to Equity Ratio (DER), and Current Ratio (CR) has no significant effect on Stock Return with an effect of only 1.24%, Meanwhile, 98.76% of the contents were explained by other variables outside the research.

8. SUGGESTIONS

Researchers realize that the results of this study are still not perfect. This is because there are still some limitations as follows. The research only examines the factors that are thought to influence stock returns, namely Return on Equity, Debt to Equity Ratio, and Current Ratio. This study only examines stock returns in the Food and Beverage sector which is considered to dominate the capital market and this research only examines the company for 4 years so that it is only able to see the effect of the independent variable on the dependent variable in a short period. Based on the results of the research that has been done, the suggestions that can be put forward for further research are further research to add other variables which are thought to have an effect on stock returns to be the object of research.

Besides that, further research should examine stock returns in other business sectors that are still rarely studied, for example in banking, real estate or service companies and further research it would be better if there is an additional time period to be studied because you can better know how the effects will be if the research is carried out in a longer period.

REFERENCES