

THE EFFECT OF FINANCIAL PERFORMANCE ON LQ45 SHARE RETURN IN INDONESIA STOCK EXCHANGE

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ABSTRACT

This research was conducted with the aim to find out and analyze the effect of simultaneous return on assets, return on equity, debt to equity ratio, debt to assets ratio, earnings per share, and price earning ratio on LQ45 stock returns on the Indonesia Stock Exchange. This study uses a quantitative approach. Based on the purposive sampling technique, the companies that met the research criteria were 17 LQ45 companies on the Indonesia Stock Exchange. The data used are financial statements for the period 2015-2017. Data analysis techniques are using multiple linear regression, F test, and t test.

Based on the results of the study note that simultaneous return on assets, return on equity, debt to equity ratio, debt to assets ratio, earnings per share, and price earnings ratio does not affect stock returns, this is evidenced by the results of testing with the F test that shows the significance value is greater than 0.05 which is equal to 0.187. Return On Assets does not have a significant effect on stock returns because the significance value of the t test is greater than 0.05 which is 0.767. Return On Equity does not have a significant effect on stock returns because the significance value of the t test is greater than 0.05 which is equal to 0.489. Debt to Equity Ratio has no significant effect on stock returns because the significance value of the t test is greater than 0.05 which is equal to 0.935. Debt to Assets Ratio does not have a significant effect on stock returns because the significance value of the t test is greater than 0.05 which is 0.593. Earning Per Share has a significant effect on stock returns because the significance value of the t test is greater than 0.05 which is equal to 0.025. Price Earning Ratio has no significant effect on stock returns because the significance value of the t test is greater than 0.05 which is equal to 0.336.

Keywords: *return on assets, return on equity, debt to equity ratio, debt to assets ratio, earnings per share, price earnings ratio, stock returns*

PLEMINARY

In the current era of globalization, companies are expected to continue to grow, meanwhile this development requires capital. Capital can come from inside and outside the company. Capital originating from within the company can be obtained through retained earnings, while capital originating from outside the company can be obtained from creditors and investors or shareholders.

To get additional capital from investors, the company must be able to maximize the value of the company, because a good company value will attract investors to invest in the company. The company value depends on the company's performance, the results will be reflected in the return that will be received by investors. Generally, investors are interested in investments that can provide

relatively high returns, because if the returns are high, the compensation received by investors is also large. The amount of stock return is related to the company's financial performance which can be predicted through the company's financial statements by looking at its financial ratios.

Companies that have gone public have an obligation to issue financial reports aimed at investors. The financial report will serve as an information tool that connects the company with interested parties, which shows the company's financial health condition and the company's performance.

Various analysis tools can be used to process financial reports. And one of them is to use financial ratio analysis. Financial ratio analysis used to analyze the company's financial performance according to Hery (2015: 166) is the liquidity ratio, solvency ratio, activity ratio, profitability ratio, and market ratio.

This study is intended to conduct further testing of empirical findings regarding the effect of financial ratios on stock returns. The reason researchers examine stock returns is because stock returns can reflect the success of a company in managing its business.

If the stock return obtained by investors is high, then investor confidence in investing in the company will also be higher. In this study, the company studied was the LQ45 company on the Indonesia Stock Exchange for the period 2015 to 2017. The use of the LQ45 company was because the company had a large market capacity and passed the selection according to the selection criteria. The Indonesia stock exchange regularly monitors the performance of each of the 45 stocks included in the LQ-45 index. Shares replacement is carried out every six months, namely at the beginning of February and August. If there are shares that do not meet the selection criteria, the shares are issued and replaced with other shares that meet the criteria

Based on the description above, the title in this study is "The Effect of Financial Performance on LQ45 Stock Returns in the Indonesia Stock Exchange".

LITERATURE REVIEW

Return On Asset

Return on assets according to Hery (2015: 168) is a ratio that shows the results (return) on the use of company assets in creating net income. In other words, this ratio is used to measure how much net profit will be generated from each rupiah of funds embedded in total assets. The Return On Asset formula is:

$$\text{Return On Asset} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Return On Equity

Return On Equity according to Hery (2015: 168) is a ratio that shows the results (return) on the use of company equity in creating net income. Return On Equity is used to measure how much net profit will be generated by each rupiah of funds embedded in total equity. Return On Equity can be calculated by the formula:

$$\text{Return On Equity} = \frac{\text{Net Profit}}{\text{Total Equity}}$$

Debt to Asset Ratio

Debt to asset ratio according to Hery (2015: 166) is a ratio used to measure how much the company's assets are financed by debt. Debt to asset ratio can be calculated using the following formula:

$$DTAR = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Debt to Equity Ratio

Debt to equity ratio according to Hery (2015: 166) is the ratio used to find out how much of each rupiah of capital is used as debt collateral. This ratio provides an indication of the debtor's creditworthiness and financial risk. Debt to equity ratio can be calculated using the formula:

$$DER = \frac{\text{Total Debt}}{\text{Total Capital}}$$

Earning Per Share

Earning Per Share according to Hery (2015: 169) is a ratio used to measure the success of company management in providing benefits for common shareholders. Earning Per Share can be calculated by the formula:

$$EPS = \frac{\text{Profit after tax}}{\text{The number of shares outstanding}}$$

Price Earning Ratio

Price Earning Ratio according to Hery (2015: 169) is a ratio that shows the comparison between market price per share and earnings per share. Price Earning Ratio can be calculated with the following formula:

$$PER = \frac{\text{Stock price}}{\text{Earning Per Share}}$$

Stock Return

Every investment, both short and long term, has the main objective of getting benefits, either directly or indirectly. Investors are interested in investing by buying company shares in the hope of receiving a return on their investment. The results obtained from the investment or the level of return obtained by investors on the investment made is called return.

Stock return according to Robert in Fajriati (2017: 7) is the level of profit enjoyed by investors on a stock investment made. Meanwhile, according to Tandelilin (2010: 101) return is one of the factors that motivates investors to invest and is also a reward for the courage of the investor to bear the risk of his investment.

Stock return according to Jogiyanto in Ginting (2012: 42) is calculated by the following formula:

$$R_i = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Note:

R_i = Stock return

P_t = Share price period t

P_{t-1} = Share price t-1

Hipotesis

1. Return on assets, return on equity, debt to equity ratio, debt to assets ratio, earning per share, and price earning ratio simultaneously have a significant effect on LQ45 stock returns on the Indonesia Stock Exchange.
2. Return on assets, return on equity, debt to equity ratio, debt to assets ratio, earnings per share, and price earning ratio partially have a significant effect on LQ45 stock returns on the Indonesia Stock Exchange.
3. Earning per share has a dominant effect on LQ45 stock returns on the Indonesia Stock Exchange.

RESEARCH METHODS

Research Variable

1. Independent Variable (X)
 - a. Return On Asset (X_1)
 - b. Return On Equity (X_2)
 - c. Debt to Equity Ratio (X_3)
 - d. Debt to Assets Ratio (X_4)
 - e. Earning Per Share (X_5)
 - f. Price Earning Ratio (X_6)

2. Dependent variable

The dependent variable in this study is stock returns.

Population and Sample

The research population is companies listed in the LQ-45 Index on the Indonesia Stock Exchange from 2015 to 2017.

The sampling technique used purposive sampling. Purposive sampling according to Sugiyono (2011: 85) is a sampling technique based on predetermined criteria. The criteria used in this study are:

1. The company is included in the LQ 45 share group
2. The company is included in the manufacturing industry
3. The company has complete financial reports from 2015 to 2017.
4. The company presents financial reports using rupiah units

Analysis Technique

1. Multiple Linear Regression

Multiple linear regression analysis in this study is used to determine whether there is an influence between the independent variables return on assets, return on equity, debt to equity ratio, debt to assets ratio, earnings per share, and price earning ratio to the dependent variable on stock returns.

2. Coefficient of Determination (R^2)

Analysis of the coefficient of determination (R^2) in essence measures used to determine the percentage effect of return on assets, return on equity, debt to equity ratio, debt to assets ratio, earning per share, and price earning ratio on stock returns.

3. F Test

The F test is used to determine the simultaneous effect of return on assets, return on equity, debt to equity ratio, debt to assets ratio, earnings per share, and price earning ratio on stock returns.

4. t Test

The t test is used to determine the partial effect of return on assets, return on equity, debt to equity ratio, debt to assets ratio, earning per share, and price earning ratio on stock returns.

RESEARCH RESULT

The multiple linear regression equation obtained from data processing using the SPSS 24 program is:

Table 1
Multiple Linear Regression
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	-1,079	1,236	
X1	1,871	6,270	,157
X2	-1,533	2,193	-,403
X3	,096	1,164	,054
X4	2,232	4,145	,329
X5	,0001	,000	,376
X6	,041	,042	,145

a. Dependent Variable: Y

Source: Data processed by researchers, 2019

The multiple linear regression equation obtained is:

$$Y = -1,079 + 1,871 X_1 - 1,533 X_2 + 0,096 X_3 + 2,232 X_4 + 0,0001 X_5 + 0,041 X_6$$

The explanation is:

1. The constant value is negative at -1.079. This means that if return on assets (X_1), return on equity (X_2), debt to equity ratio (X_3), debt to assets ratio (X_4), earnings per share (X_5), and price earning ratio (X_6) are equal to zero, then the stock return (Y) will decrease by 1.079 units.
2. The regression coefficient value of the return on assets (X_1) variable is 1.871. A positive value shows a unidirectional relationship, meaning that if the return on assets (X_1) has increased by one unit, then the stock return (Y) will also increase, which is 1.871 units and vice versa, assuming the other independent variables are constant.
3. The regression coefficient value of the return on equity variable (X_2) is -1.533. A negative value shows a relationship in the opposite direction, meaning that if the return on equity (X_2) increases by one unit, then the stock return (Y) will decrease by 1.533 units and vice versa, assuming the other independent variables are constant.

4. The debt to equity ratio (X_3) variable regression coefficient value is 0.096. A positive value shows a unidirectional relationship, meaning that if the debt to equity ratio (X_3) increases by one unit, then the stock return (Y) will also increase by 0.096 units and vice versa assuming the other independent variables are constant.
5. The debt to assets ratio (X_4) variable regression coefficient value is 2,232. A positive value shows a unidirectional relationship, meaning that if the debt to assets ratio (X_4) has increased by one unit, then the stock return (Y) will also increase by 2,232 units and vice versa assuming the other independent variables are constant.
6. The regression coefficient value of earnings per share (X_5) is 0.0001. A positive value shows a unidirectional relationship, meaning that if the earnings per share (X_5) has increased by one unit, then the stock return (Y) will also increase by 0.0001 units and vice versa assuming the other independent variables are constant.
7. The regression coefficient value of the price earning ratio variable (X_6) is 0.041. A positive value shows a unidirectional relationship, meaning that if the price earning ratio (X_6) increases by one unit, then the stock return (Y) will also increase by 0.041 units and vice versa assuming the other independent variables are constant.

Coefficient of Determination (R^2)

The coefficient of determination (R^2) is:

Table 2
Multiple Coefficient of Determination
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,430 ^a	,185	,066	1,079669
a. Predictors: (Constant), X_3 , X_2 , X_1				
b. Dependent Variable: Y				

Source: Data processed by researchers, 2019

Based on the table above, it is known that the magnitude of R Square (R^2) is 0.185 or 18.5%. This means that 18.5% of variations in the ups and downs of stock returns (Y) can be influenced by variations in the ups and downs of return on assets (X_1), return on equity (X_2), debt to equity ratio (X_3), debt to assets ratio (X_4), earnings. per share (X_5), and price earning ratio (X_6) while the remaining 81.5% (100% - 18.5%) is influenced by other variables outside the research.

F Test

From the results of data processing using the SPSS 24 program, the following results were obtained:

Table 3
F Test

Model	df	F	Sig.
1 Regression	6	1,550	,187 ^b
Residual	41		
Total	47		

Source: Data processed by researchers, 2019

From the table above, it can be seen that the probability value or significance value is greater than 0.05, which is 0.187. This means that simultaneously, return on assets (X_1), return on equity (X_2), debt to equity ratio (X_3), debt to assets ratio (X_4), earnings per share (X_5), and price earning ratio (X_6) have no effect on stock return (Y).

t Test

From the results of data processing using the SPSS 24 program, the following results were obtained:

Table 4
t Test
Coefficients^a

Model		T	Sig.
1	(Constant)	-.874	,387
	X1	,298	,767
	X2	-.699	,489
	X3	,082	,935
	X4	,538	,593
	X5	2,324	,025
	X6	,974	,336

a. Dependent Variable: Y

Source: Data processed by researchers, 2019

From the table above it can be explained that:

1. The significance value of return on assets (X_1) is 0.767, greater than 0.05. This shows that return on assets has no significant effect on stock returns.
2. The significance value of return on equity (X_2) of 0.489 is greater than 0.05. This shows that return on equity has no significant effect on stock returns.
3. The debt to equity ratio (X_3) significance value of 0.935 is greater than 0.05. This shows that the debt to equity ratio has no significant effect on stock returns.
4. The debt to assets ratio (X_4) significance value is 0.593, greater than 0.05. This shows that the debt to assets ratio has no significant effect on stock returns.
5. The significance value of earning per share (X_5) is 0.025, smaller than 0.05. This shows that earning per share has a significant effect on stock returns.
6. The significance value of the price earning ratio (X_6) is 0.336, greater than 0.05. This shows that the price earning ratio has no significant effect on stock returns.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The conclusions of the research results are as follows:

1. Simultaneously return on assets, return on equity, debt to equity ratio, debt to assets ratio, earnings per share, and price earning ratio have no effect on stock returns, this is evidenced by the test results with the F test which shows the probability value or the significance value is greater than 0.05, which is 0.187.

2. Return On Assets has no significant effect on stock returns, this is evidenced by the test results with the t test which shows a probability value or significance value greater than 0.05, which is equal to 0.767.
3. Return On Equity has no significant effect on stock returns, this is evidenced by the test results with the t test which shows a probability value or significance value greater than 0.05, which is equal to 0.489.
4. Debt to Equity Ratio has no significant effect on stock returns, this is evidenced by the results of testing with the t test which shows a probability value or significance value greater than 0.05, which is equal to 0.935.
5. Debt to Assets Ratio has no significant effect on stock returns, this is evidenced by the test results with the t test which shows a probability value or significance value greater than 0.05, which is 0.593.
6. Earning Per Share has a significant effect on stock returns, this is evidenced by the test results with the t test which shows a probability value or significance value greater than 0.05, which is 0.025.
7. Price Earning Ratio has no significant effect on stock returns, this is evidenced by the test results with the t test which shows the probability value or significance value greater than 0.05, which is equal to 0.336.

Recommendations

Recommendations that can be submitted relating to this research are as follows:

1. Investors and potential investors should use earning per share as material for information in financial reports as a consideration in making appropriate and profitable investment decisions in the capital market, because based on research results it is known that earning per share has a significant effect on stock returns.
2. For further researchers it is recommended to use a longer research period, more samples, and add independent variables that can affect stock returns that are not included in the study.

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