

THE EFFECT OF FINANCIAL PERFORMANCE AND FIRM SIZE ON STOCK RETURN IN MISCELLANEOUS INDUSTRIAL SECTOR ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

The purpose of this study is to analyze the effect of profitability, liquidity, leverage, and firm size on stock returns of Miscellaneous industrial sectors on the Indonesia Stock Exchange. The sample consist of 17 companies, which are taken by purposive sampling technique. The analysis technique used is multiple linear regression. The results of this study indicate that simultaneously the variables of profitability, liquidity, leverage, and firm size have a significant effect on the stock return. Partially, profitability has a significant positive effect and liquidity has a significant negative effect on stock returns. Meanwhile, leverage and firm size partially have no effect on stock returns. The results showed that stock returns will increase with increasing profitability and low liquidity. Increased profitability of the company will increase profits that can be distributed to shareholders. The company's profitability can increase with low liquidity as long as its current assets can meet its current liabilities. This condition is attractive to investors so that the company's stock price increases as well as its stock return

Keywords: profitability, liquidity, leverage, firm size, stock returns

PRELIMINARY

Stocks are securities that show the ownership of a person or legal entity to the company issuing the shares (Sutapa, 2018). Investors buy stocks expecting a return as a reward from investment that will be obtained in the future. The higher the return or profits obtained, the higher the prosperity of shareholders (Husnan, 2015). Based on the investor's point of view, returns can be divided into realized returns and expected returns that are expected to occur in the future (Jogiyanto, 2014: 19). Stock returns consist of dividends and capital gains. Dividends are profit sharing given by the company to shareholders, and capital gain occurs when a stock sell for more than what originally paid for it. If the selling price is lower than the purchase price, it is called a capital loss (www.idx.co.id).

Stock prices are influenced by external factors that cannot be controlled and internal or fundamental factors based on the company's performance presented in the financial statements. Investors analyze the company's performance to minimize uncertainty and maximize the expected rate of return. There are various tools that can be used to measure company performance, for example:

ratio analysis consisting of profitability, liquidity, and leverage. In addition to financial performance, company size can also affect stock returns (Dewi and Sudiarta, 2019; Widiarini, and Dillak, 2019).

Profitability assesses the company's ability to generate profits. Profitability measurement aims to see the company's development within a certain period of time, either decrease or increase and at the same time look for the causes of these changes (Sutapa, 2018). Return on assets (ROA) is one measure of profitability that shows the contribution of assets in generating net income (Hery, 2016: 193). Liquidity measures the company's ability to meet obligations or pay short-term obligations as they mature (Hery, 2016:149). The current ratio is one of the liquidity ratios used to measure the company's ability to meet its short-term obligations that are due soon by using the total current assets available (Hery, 2016:152). Leverage shows how much the company financed by debt or compares the equity and funds from outside parties (Hermanto and Agung, 2012). According to Sutriani (2014), the Debt to Equity Ratio (DER) explains the company's ability to pay debts with equity.

According to Dwi et al (2013: 8), company size can be classified in various ways, including total assets. The size of the company is getting bigger according to the number of assets owned. Companies that have large total assets are relatively more stable and able to generate larger profits than small ones. Companies that are relatively large in performance will be increasingly noticed by the public so that they will inform or report their financial conditions more carefully and transparently. This will have an impact on investors who will invest in the company (Putu and Sudiarta, 2019).

THEORETICAL FRAMEWORK AND HYPOTHESES FORMULATION(20%)

Stock Return

Stock is a security that represents the ownership of a fraction of a [corporation](#). This entitles the owner of the stock to a proportion of the corporation's [assets](#) and profits equal to how much stock they own. Units of stock are called "shares." Stock is an instrument in the capital market that is most in demand by investors, because it provides an attractive rate of return (Fahmi, 2015: 81).

According to Legiman (2015) stock returns are the results obtained from investments in stocks. Stock return is the difference between the selling price of the stock and the purchase price of the stock. Stock returns consist of two types, namely dividends and capital gains.

Profitability and Stock Return

Return on assets (ROA) as a measure of profitability shows the magnitude of the contribution of assets in generating net income (Hery, 2016: 193). The size of the company's profits minimizes the risk of a company's investment. The higher the profitability, the more effective a company uses its assets to generate net profit after tax (Raningsih and Putra, 2015).

The increase in return on assets will be responded positively by investors by investing in the company's shares. According to Putu and Sudiarta's research (2019), also Sutriani (2014) return on assets (ROA) has a significant positive effect on stock returns.

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

Liquidity and Stock Return

Liquidity is the company's ability to meet obligations or pay short-term debt using its current assets (Hery, 2016:149). One measure of liquidity is the current ratio. The higher the current ratio,

the greater the company's ability to pay its short-term obligations (Jaunanda and Francesca, 2015). The research of Putu and Sudiarta (2019); Sutapa (2018) shows that the Current Ratio (CR) has a significant positive effect on stock returns.

H2: Liquidity partially has a significant positive effect on stock returns.

Leverage and Stock Return

Leverage shows how much the company is financed by debt or compares the funds prepared by the owner with funds from outside parties (Hermanto and Agung, 2012). One measure of leverage is the debt to equity ratio.

According to Sutriani (2014), the Debt to Equity Ratio (DER) shows the company's ability to pay debts from its own capital. The lower the value of the debt to equity ratio, the proportion of own capital used by the company is greater than debt. The research of Firmansyah and Purnamasari (2017), as well as Widiarini and Dillak (2019) shows that the debt to equity ratio has a significant positive effect on stock returns. On the other hand, Putu and Sudiarta's research (2019) shows that the debt to equity ratio has a significant negative effect on stock returns.

H3: Leverage partially has a significant effect on stock returns.

Firm Size and Stock Return

Firm size is a scale that categorizes large or small companies which can be determined based on total assets, total sales, and stock market value (Nurminda et al., 2017).

Companies that have large total assets increase the flexibility of the management in managing or utilizing these assets (Analysis, 2011). Based on the research of Putu and Sudiarta (2019), company size has a significant positive effect on stock returns. Meanwhile, according to Widiarini and Dillak (2019), company size has a significant negative effect on stock returns.

H4: Firm size partially has a significant effect on stock returns.

Signaling Theory

According to Brigham and Houston (2011: 36) signaling theory is the action of company management that provides information to investors about how management views the company's prospects. The information issued by the company is important for investors and business people as material for consideration in investment decisions.

Companies with profitable prospects will avoid selling shares and seeking new capital in other ways, for example using debt. Companies with less favorable prospects tend to issuing new shares to fund their investments.

Announcement of the issuance of shares by a company is generally a signal that management views the company's prospects as not good. Therefore, if a company sells new shares more often than usual, its share price will decrease. This is because issuing new shares gives a negative signal which can make the stock price decline.

RESEARCH METHODS

This study used a quantitative approach. The data used are secondary data consist of; financial reports obtained from the official websites www.idx.co.id and www.idnfinancial.com; stock price 2016-2021 obtained from the official website www.yahoo.finance.com. The population of this

research are the various industrial sector companies. Samples were taken using purposive sampling with the following criteria: 1). various industrial sector companies are listed on the Indonesia Stock Exchange for the 2016-2020 period. 2). during the research period, the company publishes complete financial statements. 3). equity is not negative. 4). The financial statements use the Rupiah currency unit.

The dependent variable is stock returns; while independent variables are profitability, liquidity, leverage, and firm size. The variables used in this study can be seen in Table 1.

Tabel 1. Operasional Definition Variable

Variable	Measurement
Stock return is the difference between the selling price and the buying price of stock	$\text{Stock Return} = \frac{P_t - (P_{t-1})}{P_{t-1}}$
Profitability is measure the contribution of total assets in generating net income.	$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Total Asset}}$
Liquidity Is the company's ability to pay its current liabilities using current assets.	$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$
Leverage Is comparison between total liabilities and total assets	$\text{Debt to Asset Ratio} : \frac{\text{Total Liabilities}}{\text{Total Asset}}$
Firm Size Is a measure of the amount of total wealth (total assets) owned by the company	$\text{Firm Size} = \text{Ln (Total Asset)}$

The first analysis method is multiple linier regression analysis, which is used to test the effect of profitability, liquidity, leverage, and firm size on stock returns, with the following regression equation:

$$RS = \beta_0 + \beta_1 \text{PRO} + \beta_2 \text{LIK} + \beta_3 \text{LEV} + \beta_4 \text{SIZE} + e$$

where: RS is stock return, β_0 is constant, $\beta_1, 2, 3, 4$ are regression coefficient, PRO is Profitability, LIK is Liquidity, LEV is Leverage, SIZ is Company Size, t is period, and e is error

The second analysis are t test and F test, which are used to identify the effect of profitability, liquidity, leverage, and firm size on stock returns partially and simultaneously.

RESULTS AND DISCUSSION

Discriptive

Table 2 shows descriptive of study. The lowest profitability value is -0,23, while the highest value is 0,23%. The high profitability of PT. Selamat Sempurna Tbk at 2017 is due to high sales and

low operating expenses. While the minimum profitability value of -0.23 was obtained by PT. Shoes Bata Tbk at 2020. This is because during the observation period there was a loss because selling and administrative expenses were higher than the increase in the level of sales. The mean value of profitability is 0.0429 which is smaller than the standard deviation of 0.06979, which means that the profitability variable is heterogeneous.

Table 2. Discriptive analysis

Variabel	N	Min	Max	Mean	Std. Deviation
Profitability (%)	85	-0,23	0,23	0,043	0,070
Likuidity (%)	85	0,60	7,68	2,140	1,394
Leverage (%)	85	0,10	3,75	1,043	0,805
Size (Milyar Rp)	85	252	351.96	3.137 0,170	75.090
Stock Return (%)	85	-0,81	4,15		0,718

The mean value of liquidity in the various industrial sectors is 2.1403. The maximum value of 7.6807 belongs to PT. Garuda Metallindo Tbk in 2016, showed that the company's current assets were more than its current debt, so it was able to pay its short-term debt using current assets. The minimum liquidity value is 0.606, indicating that each Rupiah of the company's current debt is only guaranteed by 0.606 Rupiah of current assets. The mean liquidity is 2.1403 which is greater than the standard deviation of 1.39353, meaning that the liquidity variable is homogeneous.

The mean value of leverage in various industrial sectors is 1.0427. The maximum leverage value is 3.7511 belonging to PT. Indomobil Sukses Internasional Tbk in 2019, showed the company's total debt was more than its equity. Although debt can increase the value of the company, it is also at risk of default, both interest and principal. Therefore, investors must pay attention to the company's ability to generate profits from the use of debt. The minimum leverage value of 0.102 belongs to PT. Indospring Tbk. A leverage value less than 1 indicates that the company's debt is smaller than its own capital, indicating that the company does not rely on external loans to finance its business. The mean leverage value is 1.043 which is greater than the standard deviation of 0.805, indicating that the leverage variable is homogeneous.

Table 3. Regresion Analysis

Variable	B	t	Sig	Conclusion
Constant	0,891	1,430	0.159	
Profitability	1.988	2,778	0.008	Accepted
Likuidity	-0.163	-2.336	0.023	Accepted
Leverage	0.054	0.994	0.325	Rejected
Size	-0,027	-1,386	0.172	Rejected
F hitung	3,070	Sig F	0,024	
R Square	0,188			
Durbin-Watson				

Profitability has a significant positive effect on stock returns. Increased profitability as measured by ROA means the company is more effective in utilizing its assets to generate net profit

after tax. The company's performance is getting better as a positive signal and attracts investors' interest, thereby pushing up the company's stock price. The increase in stock prices will increase the return of the stock.

Liquidity has a significant negative effect on stock returns. This result shows that the higher the liquidity as measured by the current ratio reflects the more liquid the company is, and the greater the company's ability to meet its short-term obligations. Negative results can occur because high liquidity increases idle funds that do not generate profits, and the company's inefficiency in managing its liquidity. Excess liquidity increases the company's potential to lose the opportunity to profit from excess liquidity. Investors do not like companies with over-liquidity and tend to avoid investing in such stocks, so that stock prices will fall, as well as stock returns. The results of this study are in accordance with the results of Putu and Sudiarta's (2019) research which states that liquidity has an effect on stock returns.

Leverage and firm size have no significant effect on stock returns. This result is consistent with research by Annisa and Sofian (2017) which states that leverage has no significant effect on stock returns. Companies with large total assets do not necessarily generate high profits, and when total assets are not managed efficiently it will reduce operating efficiency resulting in non-optimal profits. These results support the research of Fachrudin (2011) which states that company size has no effect on stock returns.

R^2 value of 0,188 (18,8%) which means that the effect of profitability, liquidity, leverage, and firm size on stock returns is 18,8%. The remaining 81,2% is influenced by other variables outside the model. The significance value of 0,000 is smaller than the 0,05 significance level, which means that profitability, liquidity, leverage, and firm size simultaneously have a significant effect on stock returns in various industrial sectors.

CONCLUSIONS, IMPLICATIONS, SUGGESTIONS AND LIMITATIONS OF THE RESEARCH

Testing the hypothesis proved that the variables of profitability, liquidity, leverage, and firm size simultaneously have a significant effect on stock returns, with a contribution of 18.8%. The partial hypothesis testing shows that profitability and liquidity have a significant effect on stock returns, while leverage and firm size have no significant effect on stock returns.

This study has several limitations such as: a). there are 13 companies with incomplete financial statement information, 6 companies with negative equity, and 11 companies using non-IDR currencies, thus reducing the number of samples to only 17 companies studied. 2). The value of the coefficient of determination (R^2) is small, only 18.8%. 3) there are 27 data outliers so that there are only 58 data that are obtained 4). The measurement using net income does not reflect the company's ability to generate profits from its business activities because there are expenses and income outside of business activities

Based on the results of the study and the limitations of the study, it is recommended that further researchers use variables outside of leverage and firm size because apart from having a partially insignificant effect, its simultaneous contribution to profitability and liquidity on stock returns is only 18.8%. Companies are advised to pay attention to profitability and liquidity factors because it is proven that these two variables partially have a significant effect on stock returns. Investors are advised to consider the company's ability to generate profits and fulfill short-term

obligations in their investment decisions because these two factors have a significant effect on stock returns.

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