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EFFECT OF FINANCIAL RATIOS TO STOCK RETURN ON COMPANIES REGISTERED AT IDX

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Abstract: *This research has a purpose, and that is to determine the effect of return on equity, debt to equity ratio, current ratio, total asset turnover, and price to book value on stock return. This research use Mining Companies that are listed in the Indonesia Stock Exchange for the 2012–2020 period as the population. In this research, the sampling method that used is a purposive sampling method with a total of 11 companies. Causal research is implemented in this research to determine the effect between the independent variables and dependent variables. This research uses multiple linear regression to process the data. Based on the test result, Return on equity, Debt to equity, Current ratio, Total asset turnover and Price to book value does not have effect on stock return.*

Keyword: Return on Equity, Debt to Equity Ratio, Current Ratio, Total Asset Turnover, Price to Book Value, Stock Return

Abstrak: Penelitian ini memliki suatu tujuan, dan tujuan itu adalah untuk mengetahui pengaruh dari *return on equity, debt to equity ratio, current ratio, total asset turnover,* dan *price to book value* terhdadap return saham. Penelitian ini menggunakan Perusahaan Pertambangan yang terdaftar di Bursa Efek Indonesia pada periode 2012-2020 sebagai populasinya. Dalam penelitian ini, metode pengambilan sampel yang digunakan adalah *purposive sampling method* dengan jumlah 11 perusahaan. Penelitian kausal diimplementasikan dalam penelitian ini untuk mengetahui pengaruh antara variabel independen dan variabel dependen. Penelitian ini menggunakan regresi linier berganda untuk mengolah data. Berdasarkan hasil uji, *return on equity, Debt to equity, Current ratio , Total asset turnover* dan *Price to book value* tidak berpengaruh terhadap return saham.

Kata Kunci: Return on Equity, Debt to Equity Ratio, Current Ratio, Total Asset Turnover, Price to Book Value, Return Saham

INTRODUCTION

Companies have the tendencies to expand their businesses, and these activities will force them to gain more capital. They can get capital in many ways, and the common way is through investors. Investors would invest in a company because they expect something in return. One of the attraction for the investors are high stock return and will be checking the company profile and performance afterwards (Sausan *et al.* 2020).

Investment contributes to the development of a business that is run (Safitri *et al*. 2020). Not only in order to increase their capital and to fund their expanding or developing activities. Companies also have to deal with financial crisis and financial risks on a daily basis. This is the task of a financial managers to manage their financial condition, if a financial managers could manage it properly, it will increase the company's financial performance, and result in the increase of stock return (Ratih and Candradewi 2020).

This research will choose mining companies as the object of this research. This is because mining companies has a stable fluctuation of stock return which results in flat trend graphics based on the figure. This has took researcher interest to see if the independent variables cause mining companies stock return hasn't grow over the years. Another reason why the researcher took interest in the mining sector is the fact that Indonesia still has a lot of mining resources that haven't been manage yet. According to CNBC Indonesia in 2018, Indonesia still has around 15.000 Trillion Rupiah, so this is a good opportunity to know whether this independent variables effecting the company's stock performance.

According to Siregar and Sihombing (2020) there are several factors that effecting the increase and decrease of stock return, such as Return on Equity (ROE), Debt to Equity Ratio (DER), Current Ratio (CR), Total Asset Turnover (TATO), and Price to Book Value (PBV). Beside of having an effect, according to Siregar and Sihombing (2020) also that there are difference of research outcomes from prior research. The purpose of this research is that Researchers want to analyze the effect of ROE, DER, CR, PBV and TATO on stock returns in Mining Companies listed on the IDX in 2010 – 2020. Researchers also want to determine whether factors have strong or no relationship with company's stock return.

Signaling Theory

According to Brigham and Houston (2019, 499), managers has a better information about their company than investors, based on these information, managers and investors would take an action towards the company's, whether to buy or not the company's shares. These information includes company's financial statements, from the financial statement investors could see on how good are the company's financial performance.

According to Sihombing and Sinaga (2020), Signaling Theory talks about how a company's executives have an information about their performance and deliver this information to the investors and prospective investors, in hope to increase company's price of shares. If the companies gave positive signals, investors would tend to invest in their company, so the better the signal, the higher the demand for the company's shares. Automatically, the higher the demand, the stock prices will also increases and resulting in higher stock return.

Arbitrage Pricing Theory

According to Brigham and Ehrhardt (2017, 1997), Stephen Ross proposed an approached that required return of a stock influenced by more than one factors, it's called Arbitrage Pricing Theory. Differ from CAPM that stated return of a stock only influenced by one factors, the theory said that required return could include several risk factors, so return level of a stock could influenced by more than one factors.

According to Bowens and Endri (2018) Arbitrage Pricing Theory is useful to predict a stock price in the future, return of a stock isn't influenced only by the market portfolio, but also with other several risk source. Two investment that has the same characteristic cannot be sell with different price, because there will a an opportunity to arbitrage, by buying the lower price and sell them higher or same as the investment that has the same characteristics.

Stock Return

According to Kusmayadi *et al*. (2018), stock return is the result that obtained from the investment or the level of profit enjoyed by investors on an investment they have made, this supported also from Martina *et al.* (2019) that also said about stock return is the benefit obtain by the shareholders as a result of investment. Return is also a profit obtained by the investors that made as a result of the investments (Bowens and Endri 2018). Based on the definitions, Stock returns or share returns is a level that shows how much profit can an investor obtained from investing. The benefits will be gained after investors have invest for a certain period of time.

Return on Equity

Return on Equity is one of the many profitability ratios that commonly used. Return on Equity, is a measure of a company's ability to obtain available profits for its shareholders (Eliyanti and Stella 2019) According to Brigham and Houston (2019, 119), the higher the ROE value means that the more efficient a company generates profits from their own capital. If the roe value is high, investor tends to invest in the company because they know that the company is capable to bring profits. This will resulting in high demand of stock and increase the stock prices so the stock return will also increases.

According to Siregar and Sihombing (2020), Return On Equity will have effect on Stock Returns. The results of this study are in line with the research of (Dewanti *et al*. (2019), Putra *et al*. (2018), Simorangkir (2019)**,** and Rochim and Ghoniyah (2017).

However, this study contradicts the research of Sari and Hermuningsih (2020), and Musallam (2018). Which show that partial Return on Equity testing does not have effect on stock returns.

H1: There is an effects of Return on Equity on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

Debt to Equity Ratio

There are several measuring instruments for solvency ratio, one of which is the debt to equity ratio (DER). Debt to equity ratio is calculated by total debt compared to shareholder equity. According to (Kusmayadi *et al.* 2018), Debt to equity ratio is related to the capability of a company in returning debt that they have. According to Afifah and Susanty (2019), higher debt to equity ratio will shows on how much is a company using loans or debt to financing their company activities.. If the DER value is small, the likely for investor to invest is higher which results in increasing stock prices. This means that the lower the DER value the company could manage their equity and pay their liabilities and will resulting in investors investing their money at the company and will increase the stock price and stock return.

According to Siregar and Sihombing (2020), Debt to Equity Ratio will have an effect on Stock Returns. The results of this study are in line with the research of Sausan *et al*. (2020), Aldiena and Hakim (2019), and Setiyono and Amanah (2016).

However, this study is not in line with some of the previous research of Wisuta and Sella (2017), Marito and Sjarif (2020), Martina *et al*. (2019), and Kusmayadi *et al*. (2018). Which state that Debt to Equity Ratio does not have an effect on Stock Returns.

H2: There is an effects of Debt to Equity Ratio on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

Current Ratio

Current ratio is calculated by dividing current assets by current liabilities. The current ratio shows us the company's ability to meet their current liabilities payment by its current assets (Priliyastuti and Stella 2017)**.** This shows that the better the current ratio value, the more liquid the company, thus giving a positive signal to investors to buy shares. This situation will indirectly affect the increase in share prices. The higher the current ratio value means that the company could manage their asset and pay their liabilities and will resulting in high demand of stock from the investor this will resulting in increases of stock price and stock return.

Siregar and Sihombing (2020) stated that Current Ratio will have an effect on Stock Returns. The result of this study are consistent with the research of (Wahyudi and Deitiana 2019), Rochim and Ghoniyah (2017), and Marito and Sjarif (2020).

However, this study also contradicts previous research which explains that the current ratio does not have an effect on stock returns just like the research results of Trisca and Mungniyati (2017)**,** (Dewanti *et al*. (2019), Muhammad and Ali (2018), and Candradewi (2016).

H3: There is an effects of Current Ratio on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

Total Asset Turnover

Total assets turnover ratio is one of the proxies of the activity ratio used to measure the efficiency level of the company's asset management. This is supported by Lusiana and Agustina (2017), that total asset turnover shows on how effective a company in generating sales, if the company's ability to generate sales is good it will resulting in more efficient asset turnover and could generate more profit. Higher TATO value means that a company able to uses its own assets effectively and efficiently to make profits. This situation will attract investors because of the ability to make profits, so the investors would like to buy the stock and will increases the stock price and stock return.

According to Siregar and Sihombing (2020), Total Assets Turnover will have an effect on Stock Returns. The results of this study are consistent with the research of Kurniawan (2021), and Sausan *et al*. (2020).

However, this study also has results with previous research which explains that TATO does not have an effect on stock return. This is the research results of Meilinda and Destriana (2019), Dewanti *et al*. (2019) and Candradewi (2016).

H4: There is an effects of Total Assets Turn Over on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

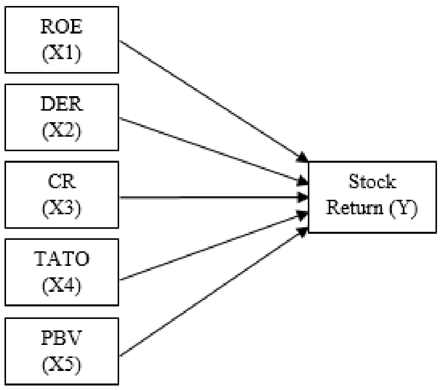
Price to Book Value

The market value ratio is also known as the stock ratio. One of the tools to measure the market value ratio is the price book value (PBV). Price to book values shows how the company's stock performance market prices on the stock book value Basarda *et al.* (2018). The higher the price to book value indicates that the company is doing well and will attract the investor's interest to invest in their company and resulting in increases of stock price and stock return.

According to Siregar and Sihombing (2020), Price to Book Value (PBV) have an effect on stock returns. This results is consistent with the research results of Aldiena and Hakim (2019), Satwiko and Agusto (2021), (Martina *et al*. (2019), and Basarda *et al*. (2018).

However, some of the previous research is inconsistent, those results are from Dewanti *et al*. (2019), Kusmayadi *et al*. (2018). Which stated that Price to Book Value does not have an effect on Stock Returns.

H5: There is an effects of Price Book Value on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.



Source: Graphing With Word 2010

Figure 1 Research Model

RESEARCH METHOD

This research can be one with causal research study, because causal research study can shows us whether the independent variables (in this case; ROE, DER, CR, TATO, PBV) has an effect or changing the dependent variable (in this case; Stock Return) (Sekaran and Bougie 2016, 44).

Non probability sampling is a sampling technique that the element of the population doesn't have any probability to be subject sample. (Sekaran and Bougie 2016, 247). Purposive sampling is a sampling technique where researcher establish some criteria to filter the sample and to gain information needed (Sekaran and Bougie 2016, 248). The sampling technique that is used by the researcher is purposive sampling method to determine the research object, and this is the criteria for the research object

1. Mining companies listed on Indonesia Stock Exchange 2010-2020.
2. Mining sector companies that have a complete financial statements from 1st to 4th quarter in 2012-2020 period.

Companies that listed on Mining Sector in Indonesia Stock Exchange or IDX for period 2012-2020 and fulfill the criteria will be chosen as the object of this research. There are 49 companies that listed on Mining Sector in Indonesia Stock Exchange on 2020 period. The procedure on how the sample was taken is presented on the Table 1 below.

Table 1 Sample Selection Result

Sample Selection Criteria	Total Company	Total Observation
Mining sector companies Listed on IDX in 2020 period	49	49
Mining sector companies listed on IDX in 2012-2020 period	42	378
Mining sector companies that have a complete financial statements from 1st to 4th quarter in 2012-2020 period	33	297
Companies that do not fit with the criteria (outlier)	22	198
Total companies chosen in this research	11	99
Number of research period	9	
Number of data sampled	99	

Source: Indonesia Stock Exchange

Stock Return

Stock Return are the results or benefits obtained by shareholders as a result of investment (Martina *et al*. 2019). Another definition of stock return: return of shares is the result obtained from the investment or the level of profit enjoyed by investors on an investment that it does

(Kusmayadi *et al*. 2018). Return is the profit obtained by the company, individual and institution from the results of the investment policy that it does (Bowens and Endri 2018).

From the definition above, we can use this measurement by Rochim and Ghoniyah (2017) for stock return:

$$Stock\ Return = \frac{(beg.\ stock\ price - end.\ stock\ price)}{ending\ stock\ price}$$

Return on Equity

According to Martina *et al*. (2019), Return on Equity, is a measure of a company's ability to obtain available profits for its shareholders. Pamungkas *et al*. (2017) refers Return on Equity as the ratio used to measure the ability of the capital itself to generate profits for all shareholders, both common stock and preferred stock. Other definition is from Putra *et al*. (2018), Return on Equity (ROE) is the company's ability to generate profits based on capital owned net.

Based on the definition, we can Brigham and Houston (2019, 119) to measure Return on Equity, formula is as follow:

$$ROE = \frac{net\ income}{common\ equity}$$

Debt to Equity Ratio

Debt to Equity Ratio is a solvency ratio in which this ratio is related to the ability of a company in returning its debt (Kusmayadi *et al*. 2018). Other definition of Debt to Equity Ratio: Debt to Equity Ratio (DER) is the ability to meet the company's short- and long-term liabilities (Putra *et al*. 2018). (Basarda *et al*. (2018) stated that Solvency ratios can be measured by debt to equity ratio (DER) reflecting the ability of the company to fulfill all its obligations indicated by what part of its capital is used to pay the debt. The formula this study use is from Brigham and Houston (2019, 116), as follows:

$$DER = \frac{total\ debt}{total\ equity}$$

Current Ratio

According to Sihombing and Sinaga (2020) current ratio is the ratio commonly used to measure a company's ability to meet short-term obligations (short run solvency) that will mature within one year. From Adawiyah and Setiyawati (2019), Current ratio is obtained by calculating the total current assets divided by current liabilities. This ratio shows the company's ability to pay its current liabilities using its current assets. Current Ratio according to Rochim and Ghoniyah (2017), is the ratio used to measure a company's ability to pay its short-term liabilities by using current assets.

Based on the definition above, we use formula to measure Current Ratio from Brigham and Houston (2019, 108), as follows:

$$CR = \frac{current\ assets}{current\ liabilities}$$

Total Asset Turnover

According to Kurniawan (2021), Total Asset Turn Over used by company to measure on how they are in using their assets to support their sales activities. Sihombing and Sinaga (2020) refers Total Asset Turn Over as ratio used to measure the turnover of all assets owned by the company and to measure how much sales were obtained from each rupiah of assets. Total assets turnover is the ratio used to measure the capability of a company to manage the current assets to generate sales that might increase the company's profit in the near future Hasby *et al*. (2018).

Because of all that definitions, we use Brigham and Houston (2019, 113) formula to measure Total Asset Turnover:

$$TATO = \frac{sales}{total\ assets}$$

Price to Book Value

According to Safitri *et al*. (2020), Price to Book Value ratio shows how much the company value of what has been or is being invested by the owner of the company, the higher this ratio, the greater the additional wealth (wealth) that is enjoyed by the owner of the company. The Price to Book Value ratio is an indication of how much shareholders are paying for the "net assets" of a company (Laurens 2018). Other definition is from Basarda *et al*. (2018), Price to Book Value is the market ratio used to measure the stock performance market prices on the stock book value.

Based on the definitions, we use formula for calculating Price to Book Value from Brigham and Houston (2019, 122), as follows:

$$PBV = \frac{Market\ Price\ Per\ Share}{Book\ Value\ Per\ Share}$$

RESEARCH RESULT

Based on the table 2 above, could be seen that in Stock Return variable, the mean value is 0.036225, the maximum value is 1.128713 and it is from PT. Timah (Persero) Tbk., the minimum value is from PT. Bumi Resources Minerals Tbk., and the standard deviation values is 0.418868.

Table 2 Descriptive Statistic Analysis

VARIABLE	OBSERVATION	MEAN	MAXIMUM	MINIMUM	STANDARD DEVIATION
STOCK RETURN	99	0.036225	1.128713	-0.841270	0.418868
ROE	99	0.045075	1.611159	-2.829762	0.426084
DER	99	1.862041	34.05558	0.144716	3.631700
CR	99	1.470289	4.617602	0.010667	1.045495
TATO	99	0.721660	2.651161	0.001711	0.543260
PBV	99	1.895948	18.67126	0.084533	2.569584

Source: Results of Multiple Linear Regression Processing

Return on Equity mean value is 0.045075, the maximum value is 1.611159 it is from PT. Elnusa Tbk., the minimum value is -2.829762 it is from PT. Atlas Resources Tbk., and the standard deviation value is 0.426084.

Debt to Equity Ratio mean value is 1.862041, the maximum value is 34.05558 it is from PT. Atlas Resources Tbk., the minimum value is -0.144716 it is from PT. Vale Indonesia Tbk., and the standard deviation value is 3.631700.

Current Ratio mean value is 1.470289, the maximum value is 4.617602 it is from PT. Vale Indonesia Tbk., the minimum value is 0.010667 it is from PT. Bumi Resources Minerals Tbk., and the standard deviation value is 1.045495.

Total Asset Turnover mean value is 0.721660, the maximum value is 2.651161 it is from PT. Elnusa Tbk., the minimum value is 0.001711 it is from PT. Bumi Resources Minerals Tbk., and the standard deviation value is 0.543260.

Price to Book Value mean value is 1.895948, the maximum value is 18.67126 it is from PT. Atlas Resources Tbk., the minimum value is 0.084533 it is from PT. Bumi Resources Minerals Tbk., and the standard deviation value is 2.569584.

Table 3 Goodness of Fit Test (F Test) Result

F-statistic	1.151749
Prob(F-statistic)	0.338970

Source: Results of Multiple Linear Regression Processing

Based on the result of F test, we can see that the Prob(F-statistic) value 0.338970 > α (α = 0.05), and the F-statistic value 1.151749 < F-table (F-table = 2.31), this means that Ha is not supported and model is not fit.

Table 4 Multiple Regression Analysis Result

Variable	Coefficient
ROE	0.003514
DER	-0.029405
CR	0.021633
TATO	0.040547
PBV	0.040640
C	-0.047301

Source: Results of Multiple Linear Regression Processing

Based on the Table 4, the conclusion of the multiple regression equation is as below:
STOCK RETURN = -0.047301 + 0.003514 ROE -0.029405 DER + 0.021633 CR + 0.040547 TATO + 0.040640 PBV + e

The meaning of this multiple regression equation are:

β0 = -0.047301, in meaning that if the independent variable, in this case ROE, DER, CR, TATO, and PBV is 0, the dependent variable, in this case Stock Return will be -0.047301.

β1 = 0.003514, in meaning that increase of one unit in independent variable ROE, will cause the increase in dependent variable by 0.003514, with the assumption of other independent in this case DER, CR, TATO, and PBV are considered constant.

β2 = -0.029405, in meaning that increase of one unit in independent variable DER, will cause the decrease in dependent variable by 0.029405, with the assumption of other independent in this case ROE, CR, TATO, PBV are considered constant.

β3 = 0.021633, in meaning that increase of one unit in independent variable CR, will cause the increase in dependent variable by 0.021633, with the assumption of other independent in this case ROE, DER, TATO, PBV are considered constant.

β4 =0.040547, in meaning that increase of one unit in independent variable TATO, will cause the increase in dependent variable by 0.040547, with the assumption of other independent in this case ROE, DER, CR, PBV are considered constant.

β5 =0.040640, in meaning that increase of one unit in independent variable PBV, will cause the increase in dependent variable by 0.040640, with the assumption of other independent in this case ROE, DER, CR, TATO are considered constant.

Table 5 Correlation Coefficient and Determination Analysis Result

R	0.2414767069512
R-squared	0.058311
Adjusted R-squared	0.007683

Source: Results of Multiple Linear Regression Processing

Based from the Table 5, it shows that the correlation R is 0.2414767069512. This shows that the relation between the independent variables ROE, DER, CR, TATO, PBV and the dependent variable Stock Return is weak, this because based on Anderson's criteria if the correlation R is get near to 0 (zero) from +1 and -1, then the relation gets weaker.

According to Table 5 above, the Adjusted R-squared value is 0.007683 of 0.7683%. This shows that statistically, the magnitude of the variation of Stock Return variable that can be explained by ROE, DER, CR, TATO and PBV is 0.7683%. While the remaining 99.2317% can be explained by other variable variations that are not included in this regression model.

Tabel 6 t Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROE	0.003514	0.155728	0.022563	0.9820
DER	-0.029405	0.019598	-1.500424	0.1369
CR	0.021633	0.041567	0.520447	0.6040
TATO	0.040547	0.085808	0.472530	0.6377
PBV	0.040640	0.021965	1.850213	0.0675
C	-0.047301	0.104039	-0.454650	0.6504

Source: Results of Multiple Linear Regression Processing

The test result shows that the value of t-Statistic 0.022563 < 1.986 t-table and the Prob. 0.9820 > α (α = 0.05). Therefore, Ha is not supported, meaning that there is no effects of Return on Equity on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

The test result shows that the value of t-Statistic -1.500424 < -1.986 t-table and the Prob. 0.1369 > α (α = 0.05). Therefore, Ha is not supported, meaning that there is no effects of Debt to Equity Ratio on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

The test result shows that the value of t-Statistic 0.520447 < 1.986 t-table and the Prob. 0.6040 > α (α = 0.05). Therefore, Ha is not supported, meaning that there is no effects of Current Ratio on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

The test result shows that the value of t-Statistic 0.472530 < 1.986 t-table and the Prob. 0.6377 > α (α = 0.05). Therefore, Ha is not supported, meaning that there is no effects of Total Asset Turnover Ratio on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

The test result shows that the value of t-Statistic 1.850213 < 1.986 t-table and the Prob. 0.0675 > α (α = 0.05). Therefore, Ha is not supported, meaning that there is no effects of Price to Book Value on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period.

CONCLUSION

The conclusion for this research is that there is no effects of Return on Equity on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period, this result is consistent with Musallam (2018), but not consistent with Siregar and Sihombing (2020). There is no effects of Debt to Equity Ratio on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period, this result is consistent with Kurniawan (2021), but not consistent with Siregar and Sihombing (2020). There is no effects of Current Ratio on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period, this result is consistent with Dewanti *et al.* (2019), but not consistent with Siregar and Sihombing (2020). There is no effects of Total Asset Turnover on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period, this result is consistent with Meilinda and Destriana (2019), but not consistent with Siregar and Sihombing (2020). There is no effects of Price to Book Value on Stock Return in Mining Companies that listed in Indonesia Stock Exchange 2012-2020 period, this result is consistent with Kusmayadi *et al.* (2018), but not consistent with Satwiko and Agusto (2021).

This research has some limitation, as following: (1) The relation between the independent variables ROE, DER, CR, TATO, PBV and the dependent variable Stock Return is weak. (2) The magnitude of the variation of Stock Return variable that can be explained by ROE, DER, CR, TATO and PBV is only 0.7683%. (3) Relationship between X and Y variable does not exist.

There are several suggestions for further research regarding to stock return, and they are: (1) Use other sectors or other companies to be the object of this research. (2) Add more independent variables such as Return on Asset, Dividend Yield, and Earning Per Share as an additional X variables through supporting journals.

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