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DETERMINANTS OF STOCK RETURN ON AGRICULTURAL COMPANY

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Abstract: *The purpose of this research is to test and to analyze empirically the effect of current ratio, debt to equity ratio, return on assets, earnings per share, and price to earnings ratio on the stock return. The population of this research is the companies of agriculture sectors, that are listed on the Indonesia Stock Exchange. Using purposive sampling method, with 15 companies as the sample of this research and also representing each of the mining sub-sector during 2014-2020 period. The data analysis technique used is the Multiple Linear Regression Analysis and Panel Data Approach. The result of this research showed that the Current Ratio (CR), Debt to Equity Ratio (DER), Retun on Asset (ROA), Earnings per share (EPS), and Price to earnings ratio (PER) have no influence on stock returns.*

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

INTRODUCTION

Every organization needs funding to support its operations activities and the other hand to ensure the organization's survival and growth (Assagaf and Kartikasari, 2019). That's become a crucial thing for organizations to make a financing decision. Financing decisions in an organization are essentially about how investment decisions are financed. Investment decisions are important because maximizing shareholder wealth to achieve the company's goals can only be created through the company's investment activities (Bustami and Heikal, 2019). Those two sources of funds that organizations can use are internal funds and external funds. Internal funds are the funds that are generated as part of an organization's activities and are called internal sources and include retained earnings. External funds are generated from debt by borrowing money in loan form which is known as debt financing and from equity by increasing the number of co-owners in the company, which is known as equity financing (Fransisca and Stella, 2022).

In considering the return that will be received, of course, investors really need information to analyze the level of risk and the level of return that will be obtained for each invested fund. Investors can assess the company's performance by looking at the financial statements, one of which is about financial ratios. In addition, the company's performance can also be seen through the size of the company. The company's financial performance greatly affects the risk and return which will affect investors' interest in buying shares. Therefore, financial statements are very helpful for investors to make estimates of the returns and risks that will be obtained in the future.

Based on various previous studies, there are differences in determining the factors that influence capital structure. However, of these various factors, there are five factors that are most often used in research as independent variables that affect capital structure, namely Current ratio, Debt to equity ratio, Return on assets, Earnings per share, Price to earnings ratio.

The object of this research uses the agricultural company sector which is listed on the Indonesia Stock Exchange because The Agricultural Sector is one of the capital-intensive industries. Agriculture requires very large investment costs, risk conditions, and high uncertainty. Agricultural companies enter the capital market and need investors to absorb investment and to strengthen financial position. In addition, the reason for choosing the agricultural sector as the object of research is supported by data on average stock returns consisting of 10 industrial sectors listed on the Indonesia Stock Exchange in 2014-2020.

This research is a replication of the previous journal which was used as the main journal, namely the journal researched and published by Endri et al. (2019) with the title "Effect of Financial Performance on Stock Return: Evidence from the Food and Beverages Sector" with the object of research being Companies in the Food and Beverage Sector listed on the Indonesia Stock Exchange for the period 2013 - 2017. And there are differences in the research period for the research period currently using research data sources, namely from 2014 to 2020.

The writing systematics in the summary of this research are as follows: Introduction consists of an explanation of the research background, research problems, research objectives, writing systematics, theoretical framework, and hypothesis development. The research method consists of sample selection and data collection methods, as well as operational definitions and variable measurements. The research results consist of an analysis and a description of the findings in this study. Closing consists of conclusions, limitations, and recommendations.

Signaling Theory

Signaling Theory was first developed by Ross (1979). According to Ross in Jusrizal's (2017) a signal is an action by management to provide direction to investors about management's view of the company's prospects. Businesses with good prospects avoid selling stock and seek to raise new capital needs through other means, such as using debt capital above their normal target capital structure.

A company's public offering announcement generally indicates that management views the company's prospects unfavorably. If a company sells new shares more frequently than usual, its share price will fall because the issuance of new shares may send a negative signal and depress the share price even if the company's outlook is optimistic. increase. (Brigham and Houston: 2019).

Efficient Market Hypothesis (EMH)

An efficient market (Efficient Market Hypothesis) is a market where the price of all traded securities is a reflection of all available information (Endri et al., 2019). Capital market efficiency is a condition where a stock price adjusts quickly with additional information obtained, and therefore the share price includes all available information (Zutter and Smart, 2012: 139). The more suitable a stock price is in the context of market information, the more the market condition has been perfectly formed.

To facilitate research on market efficiency, Fama (1970) classified efficient market forms into three forms of Efficient Market Hypothesis (EMH), including:

1. **Weak form market efficiency**

A weak form of an efficient market means that all past (historical) information is reflected in the prices that are currently being formed. Based on the weak EMH form, stock prices reflect all historical information including previous trading volumes, yields and historical prices. This claim or hypothesis indicates that past returns and other historical data are irrelevant to future returns.

2. **Semi-strong form market efficiency**

Semi-strong market forms are more market efficient than weak forms. In the form of a semi-market market, historical data in the form of information about stocks (price, volume, etc.) is known in the capital market and serves as a reference for investors in making further investment decisions. Apart from this information, public news is also collected and used by investors as a reference for further investment decisions.

3. **Strong market efficiency (strong form)**

During bearish or moderately bullish market conditions, historical data and public information can help investors guide their investment decisions. However, when the market is doing well, the information available to investors includes not only public information, but also non-public information. Market conditions are said to be perfect or strong when personal information is reflected in stock prices and individuals, especially those with issuers, do not own or store the information. If the market is efficient in terms of strength, investors cannot make extraordinary profits

Current Ratio

The current ratio is the financial ratio to measure how company's ability to meet short term liabilities. A current ratio that is too high means that the company has too many liquid assets. On the other hand, liquid assets do not generate high returns compared to fixed assets. Conversely, if the current ratio is too low, or even less than 1, it reflects the risk that the company will not be able to service its maturing debt. A company's ability to pay its short-term debts on time or on time may bring good prospects for the company from investors. Good prospects create investment interest, supply and demand for stocks, and influence changes in the company's shareholder returns (Sihombing and Sinaga, 2020).

According to previous research conducted by Assagaf and Kartikasari (2019), Sihombing and Sinaga (2020), Muhammad (2018), and Sanjaya et al (2020), stated that the current ratio has no influence on stock return, while according to research conducted by Ozturk and Karabulut (2018) has an influence on stock return. From the inconsistency of the results, the following hypothesis is obtained:

H1: The Current Ratio factor is in the same direction as Stock Return in The Companies in Agriculture Sector Listed in Indonesia Stock Exchange Period 2014-2020.

Debt to Equity Ratio

Debt-to-equity ratio (DER) can be used to measure the ability of an owner's equity to cover its debts to outsiders. A large amount of debt indicates that the company's capital is dependent on outsiders and affects the company's success. Not only does this reduce shareholder rights (in the form of dividends), it also reduces investor interest in the company's stock as return declines (Sihombing and Sinaga, 2020).

According to previous research conducted by Dewi et al (2020), Sihombing and Sinaga (2020), Muhammad (2018), and Agustin et al (2019), stated that debt to equity ratio has no influence on stock return while according to research conducted by Bintara and Tanjung (2019), Debt to Equity Ratio negatively affects on Stock Return, and according to Sanjaya et al (2020) Debt to equity and Earnings per share has an influence on Stock Return, from the inconsistency of the results, the following hypothesis is obtained:

H2: Debt to Equity Ratio has a negative effect on Stock Return in The Companies in Agriculture Sector Listed in Indonesia Stock Exchange Period 2014-2020

Return on Assets

Return on Assets (ROA) is used to measure the effectiveness of a company in generating profits use of his wealth. An increase in ROA means the company is and will continue to perform well the market and investors react by buying shares, which increases the company's share price. If the stock price rises, the stock price of the company will also rise, the theory is supported by signal theory that guides investors to assess a company's prospects (Bintara, 2019).

According to previous research conducted by Almira and Wiagustini (2020), Muhammad (2018), Bintara and Tanjung (2019), Bustami and Heikal (2018), stated that return on assets has a positive influence on stock return, while according to research that conducted by Endri et al (2020), return on assets has no influence on Stock Return, from the inconsistency of the results, the following hypothesis is obtained:

H3: The ROA factor has a positive effect on Stock Return in The Companies in Agriculture Sector Listed in Indonesia Stock Exchange Period 2014-2020

Earnings Per Share (EPS)

The company's Earnings Per Share (EPS) reflects how much capital the company has that is distributed to investors. The increase in EPS affects the increase in demand for shares, which results in prices going up (Esparesya, 2022).

According to previous research conducted by Muhammad (2018), Esparesya (2022), Mayuni (2019), Handayani (2019), stated that return on assets has positive influence on stock return, while according to research conducted by Pandaya et al (2020), return on assets has a negative influence on Stock Return, from the inconsistency of the results, the following hypothesis is obtained:

H4: EPS ratio influences in the same direction as Stock Return in The Companies in Agriculture Sector Listed in Indonesia Stock Exchange Period 2014-2020

Price to Earnings Ratio

The price-to-earnings ratio (P/E) is used by investors to predict a company's ability to generate profits in the future. The higher the P/E ratio, the higher the price of the stock to his earnings per share from the investor, so the higher the P/E ratio, the higher the earnings component. This assumption is supported by signal theory, which states that companies with very good prospects do not use new equity to finance their companies, while companies with poor prospects are willing to use debt to finance their companies, which increases their share price. He said it would lead to an increase (Muhammad, 2018).

According to previous research conducted by Muhammad (2018), Bintara and Tanjung (2019), Pandaya et al (2020), and Handayani (2019), stated that price to earnings ratio has a positive influence on stock return, while according to research that conducted by Dewi et al. (2020) and Herawati and Putra (2018), price to earnings ratio has no influence on Stock Return, from the inconsistency of the results, the following hypothesis is obtained:

H5: PER ratio influences in the same direction as Stock Return in The Companies in Agriculture Sector Listed in Indonesia Stock Exchange Period 2014-2020.

Research Model

The variables in this study consist of the dependent variable, namely Stock Return (Y) and independent variables, namely Current Ratio (X1), Debt to Equity Ratio (X2), Return on Assets (X3), Earnings per share (X4), Price to earnings ratio (X5), with the following research model:

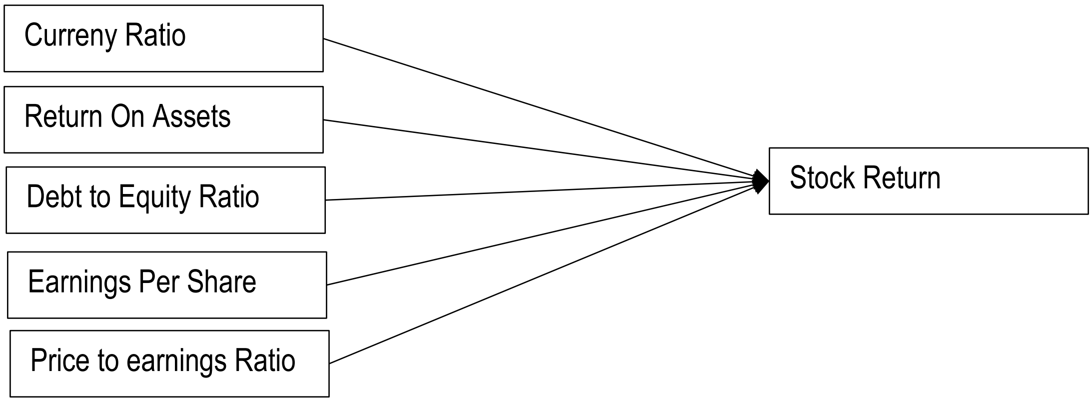

Table 1. Sample Selection Criteria

Sample Criteria	Total
1. Agricultural companies that listed on Indonesia Stock Exchange	34
2. Agricultural companies that consistently present financial statements ending on December 31 for 2014-2020	(16)
3. Agricultural companies that use non-Rupiah currency	(1)
4. Companies that does not fit with the criteria	(2)
Companies that are used as samples	15
Number of study periods	7
Total research object data	105

RESEARCH METHOD

The companies to be studied are agricultural companies listed on the Indonesia Stock Exchange for the 2014-2020 period. In determining the research sample, a purposive sampling method was used where the sample was selected based on predetermined criteria as follows:

Operational Definitions and Variable Measurements

Stock Return

Stock return is the profit obtained by companies, individuals, and institutions from the results of their investment policies. Return or stock returns can be in the form of capital gains or dividends. Higher stock return indicates higher company value and means higher shareholder welfare.

According to Assagaf (2019), Stock Return is measured by the formula:

$$\text{Stock Return} = \frac{Pt - (Pt\text{-}1)}{(Pt\text{-}1)}$$

Current Ratio

In this research, According to Zutter and Smart (2019,138), Current Ratio is measured by the formula:

$$CR = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Debt to Equity Ratio

In this research, According to Zutter and Smart (2019,138), Debt to Equity Ratio is measured by the formula:

$$DER = \frac{\text{Total Liabilities}}{\text{Common Stock Equity}}$$

Return on Assets

In this research, According to Zutter and Smart (2019,138), Return on Assets is measured by the formula:

$$ROA = \frac{\text{Earnings Available for common stockholders}}{\text{Total Asset}}$$

Earnings per share

In this research, According to Zutter and Smart (2019,138), Earnings per Share is measured by the formula:

$$EPS = \frac{\text{Earnings Available for Common stockholders}}{\text{Number of shares of common stock outstanding}}$$

Price to earnings ratio

In this research, According to Zutter and Smart (2019,138), Price to Earnings per Share is measured by the formula:

$$PER = \frac{\text{Market price per share of common stock}}{\text{Earnings Per Share}}$$

RESEARCH RESULT

The results of descriptive statistical tests and the results of hypothesis testing are as follows:
Regression equation in this study is as follows:

STOCK RETURN = 0.050388 - 0.001480 CURRENT RATIO + 0.008180 DER + 0.010051 ROA - 4.746980 EPS - 0.000295 PER + ε

From the research that has been done, several conclusions can be drawn, namely as follows:

The results of testing hypothesis 1 show that H_A is rejected, Current Ratio has no influence on Stock Return in Agricultural Companies listed in Indonesia Stock Exchange Period 2014-2020. The results of this study are

Table 2. Descriptive Statistics Result

	N	Mean	Maximum	Minimum	Std.Dev
STOCK RETURN	105	0,111048	8,39000	-0,94000	0,985816
CURRENT RATIO	105	1,653048	7,39000	0,04000	1,753755
DER	105	8,35857	39,17000	0,81000	9,27422
ROA	105	0,26959	28,06000	-0,64000	2,74109
EPS	105	59,5319	1.589,91000	-1.783,41000	352,9165
PER	105	17,44695	686,99000	-92,00000	72,66055

Source: Results of processing statistic tools

Table 3. T-Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.050388	0.178253	0.282675	0.7780
CURRENT RATIO	-0.001480	0.059624	-0.024817	0.9803
DER	0.008180	0.011173	0.732134	0.4658
ROA	0.010051	0.036064	0.278692	0.9803
EPS	-4.746980	0.000287	-0.165305	0.8690
PER	-0.000295	0.001377	-0.214369	0.9803

Source: Results of processing statistic tools consistent with previous research conducted by Assagaf and Kartikasari (2019), Sihombing and Sinaga (2020), Muhammad (2018), and Sanjaya et al (2020).

The results of testing hypothesis 2 show that H_A is rejected, Debt to equity ratio has no negative effect on stock return in Agricultural Companies listed in Indonesia Stock Exchange Period 2014-2020. The results of this study are consistent with previous research conducted by Dewi et al (2020), Sihombing and Sinaga (2020), Muhammad (2018), and Agustin et al (2019).

The results of testing hypothesis 3 show that H_A is rejected, return on assets has no positive effect on stock return in Agricultural Companies listed in Indonesia Stock Exchange Period 2014-2020. The results of this study are consistent with previous research conducted by Endri et al (2020).

The results of testing hypothesis 4 show that H_A is rejected, Earnings per share has no influence on stock return in Agricultural Companies listed in Indonesia Stock Exchange Period 2014-2020. The results of this study are consistent with previous research conducted by Pandaya et al (2020).

The results of testing hypothesis 5 show that H_A is rejected, Price to earnings ratio has no influence on stock return in Agricultural Companies listed in Indonesia Stock Exchange Period 2014-2020. The results of this study are consistent with previous research conducted by Dewi et al. (2020) and Herawati and Putra (2018).

CONCLUSION

This study aims to examine the effect of the Current ratio, Debt to equity ratio, Return on assets, Earnings per share, Price to earnings ratio on stock return in agricultural sector companies listed on the Indonesia Stock Exchange for the 2014-2020 period. From the research that has been done, several conclusions can be drawn, namely as follows:

The study was conducted to measure the effect of five financial ratios on stock returns in the agricultural companies listed on IDX during the period 2014-2020.The Current Ratio (CR), Debt to Equity Ratio (DER), Retun on Asset (ROA), Earnings per share (EPS), and Price to earnings ratio (PER) have no influence on stock returns.

This research still has several shortcomings caused by several limitations, including:

1. The sample used in this study was only based on the criteria determined by the researcher, so the number of samples in this study was only 105 samples, of which there were only 15 companies that could be sampled out of a total of 34 companies listed on the Indonesia Stock Exchange.
2. The data used is not normally distributed and the model is not fit
3. In this research only uses the variables Current Ratio, Debt to Equity Ratio, Return on Assets, Earnings per share, Price to earnings ratio, while there are still many other variables that can affect stock returns.

Based on the limitations of this study, there are several recommendations that can be used by further studies regarding stock returns, namely:

1. The number of samples used in the study can be expanded either by adding the number of sample companies or by extending the study period.
2. Using other independent variables as additional variables that are not used in this study which might affect Stock Return.

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