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THE EFFECT OF PROFITABILITY, COMPANY SIZE, DIVIDEND PAYOUT RATIO AND LEVERAGE ON GROWTH OF SHARES PRICE

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Abstract : Companies that have good performance seen by its ability to generate profits, the company's value will increase. The value of the company is reflected in the company's shares price. Company's size also refers to company's total assets. With the rising of the company's assets, company's ability to generating profit will increase which will make the company's value increase. The investors will more concern to the dividend paid from one company in the present time rather than the profitable price volatility in the future time. The company can be say in their optimal level when the company can balance its advantage and disadvantage which are arise from the using of debt. Therefore, an optimal capital structure will increase the company's value.

Keywords : *Growth of shares price, profitability, company size, dividend payout ratio, leverage.*

Abstrak : Perusahaan yang memiliki kinerja yang baik dilihat dari kemampuannya dalam menghasilkan keuntungan maka nilai perusahaan yang akan meningkat. Nilai perusahaan yang tercermin dalam harga saham perusahaan. Dengan meningkatnya aset perusahaan, kemampuan perusahaan untuk menghasilkan laba akan meningkat yang akan membuat nilai peningkatan perusahaan. Investor akan lebih perhatian pada dividen yang dibayarkan dari satu perusahaan di masa sekarang daripada volatilitas harga yang menguntungkan di waktu mendatang. Perusahaan dapat dikatakan tingkat optimal ketika perusahaan dapat menyeimbangkan keuntungan dan kerugian yang timbul dari penggunaan hutang. Oleh karena itu, struktur modal yang optimal akan meningkatkan nilai perusahaan.

Kata kunci : Pertumbuhan harga saham, profitabilitas, ukuran perusahaan, pembayaran dividen*, leverage*.

INTRODUCTION

A company that has a willing to survive in doing their business in Indonesia must be able to develop and keep an optimal level of their capital structure. An optimal capital structure is the perfect mix of the long term sources of funds used by the company to operate its business. The advantage that resulted from an optimal capital structure is the company might be able to push its cost to the minimum level as much as they could. By lowering its costs, the company will increase its profit from the revenues they got. If the company is in good performance shown by its ability in generating profits then the value of that company will increase. The value of the company is reflected in the company's shares price. Then, it can be concluded that ROA has positively affected growth of shares price.

Company's size also refers to company's total assets. With the rising of the company's assets, company's ability to generating profit will increase which will make the company's value increase too. That will affect the increasing of shares price. In conclusion, company's size will positively affected growth of shares price.

According to bird in hand theory which stated that the investors will more concern to the dividend paid from one company in the present time rather than the profitable price volatility in the future time. Then in conclusion there is positive relationship between dividends paid to growth of shares price.

Debt ratio indicates how much debt proportion that the company used in their capital structure to finance its assets. The purpose of using debt is to create an optimal capital structure because debt gives tax-shield advantage. There are no fixed proportion sources of capital to make an optimal capital structure. Static trade off theory stated that the company can be say in their optimal level when the company can balance its advantage and disadvantage which are arise from the using of debt. Therefore, an optimal capital structure will increase the company's value which shown by the company's shares price. In conclusion, debt ratio will have positive relationship to growth of shares price until it reach some optimal point.

Profitability

According to Gitman and Zutter (2012, 601), profitability is the relationship between revenues and costs generated by using the firm's assets both current and fixed in productive activities. A company can increase their profitability by reduces their costs or increase their revenue by sales. White *et al*. (2003, 111) said that profitability measures the income of the firm relative to its revenues and invested capital. Profitability also refers to the firm's ability to generate, sustain and increase profit. Profitability of a company can be measured by using profit margin, return on equity or return on asset. On the other hand, Weygandt *et al*. (2010, 803) stated profitability ratio is a measure of income or operating success of a company in a given period of time. Profitability will affect income or loss that company's get and ability to obtain external financial resources like long–term debt and equity (common stock).

There are several ratio that are included in profitability ratio such as gross profit margin, operating profit margin, net profit margin, earnings per share, return on total asset and return on equity. In this research, profitability will be represented by return on asset ratio. Gitman and Zutter (2012, 81) stated that return on total asset ratio measures the overall effectiveness of management in generating profits with its available assets. The higher the firm's return on total assets, the company condition will be better. According to Keown *et al*. (2005, 77), return on asset ratio determines the amount of net income produced on a firm's assets by relating net income to total assets. The ROA is often used as an indicator of firm's profitability. Brealey *et al*. (2006,794) also stated that return on asset is the ratio that often used by the firm to measure their performance by dividing income (earnings before interest but after taxes) to total assets. And Damodaran (2001, 95) said that return on asset of a firm measures its operating efficiency in generating profits from its assets, prior to the effects of financing.

Company's size

According to Downes and Goodman (2001, 531) firm size is grouping of entity, proprietorship, or any business organization having formal entities it's big or small. Fundamentally, a company size is measured by total assets that the company has. Total asset is reflected in the company's balance sheet at the end of operating year.

Brown and Reilly (2006, 179) said that firm size refers to how large or small a firm is measures by firm's market value. Company size has affected company's risk and net adjusted return. If the company size is small then the risk will be higher than the company with large size because company with large size has diverse its risk into different investments.

White *et al*. (2003, 178) stated that smaller firm (measured by total assets or total capitalization) tend to outperform the market even when returns are adjusted for risk. This suggests that investing in a portfolio of smaller-sized firms is a sound investment strategy. Company with large size will have bigger opportunity to obtain external financing in the capital market rather than small company.

Then it can be concluded that company's size is used to measure how big or how small one company is that can be seen through its equity, total sales or total assets. Company's size can be used to restrain risk and can be used also as credibility for a company in borrowing some money from creditors for expansion or investment needs. It can be calculated by logarithm natural from total equity, total sales or total assets of a company. Using logarithm (ln) natural is in purpose of minimize fluctuation and volatility from the data used and to avoid the error accuracy in this research.

Dividend Payout Ratio

Gitman and Zutter (2012, 577) said that dividend payout ratio indicates the percentage of each dollar earned that is distributed to the owners in the form of cash. It is calculated by dividing the firm's cash dividend by its earning per share. Keown *et al*. (2005, 607) stated that dividend payout ratio indicates the amount of dividends paid relative to the company's earnings. Brealey *et al*. (2006,66) also added that dividend payout ratio measures the proportion of earnings that is paid out as dividends. According to Damodaran (2001, 661), dividend payout ratio relates dividends paid to the earnings of the firm. It is used in valuation as a way of estimating dividends in the future periods. Then, it can be concluded that dividend payout ratio shows how much dividends paid compares with the company's earnings.

Leverage

Brown and Reilly (2006, 285) stated leverage measures the relative financial leverage of a company. Brealey *et al*. (2006, 508) stated that there are two types of leverage which are financial leverage and operating leverage. Financial leverage means financing a portion of the firm's assets with securities bearing a fixed (limited) rate of return in hopes of increasing the ultimate return to the common stockholders. Operating leverage refers to the incurrence of fixed operating costs in the firm's income stream.

According to Gitman and Zutter (2012, 508), leverage refers to the effects that fixed costs have on the returns that shareholders earn. Generally, increases in leverage result in increased return and risk, whereas decreases in leverage result in decreased return and risk. The amount of leverage in the company's capital structure can significantly affect its value by affecting return and risk. Unlike some causes of risk, management has almost complete control over the risk introduced through the use of leverage. Because of its effect on value, the financial manager must understand how to measure and evaluate leverage, particularly when making capital structure decisions.

Leverage can be measured with debt ratio and equity ratio. Therefore in this research, debt ratio will be used to measure leverage. According to Gitman and Zutter (2012, 77) debt ratio measures the proportion of total assets financed by the company's creditors. The higher this ratio, the greater the amount of other people's money being used to generate company's profits. Or if this ratio is high then the company's degree of indebtness and financial leverage will be high too.

Weygandt *et al*. (2010,807) said that debt to total asset ratio measure the percentage of the total asset provided by creditors, it is computed by dividing total debt (both current and long – term liabilities) by its total assets. Brown and Reilly (2006,329) stated that debt ratio is the proportion of firm's capital which is derived from debt compared to other sources of capital such as preferred stock, common stock, and retained earnings. The higher proportions of debt capital compared to equity capital will makes earnings more volatile and increase the probability that a firm could default on debt. Then it can be concluded that debt ratio can measure leverage by dividing company's total liabilities to its total assets. Debt ratio indicates the company's indebtness and company's financial leverage. Financial leverage shows how company's fixed cost is used to magnify its earnings per share. Then, leverage projects the company's best decision of capital structure so it can be optimalized.

Growth of Shares Price

As Brealey *et al*. (2006, 801) stated that growth rate is the percentage change in a company's net value of total assets. It's explained that a company will try to maintain their growth rate without any additional external financing. Through maximize the equity used then company will gain an optimal capital structure and then they can maximize their target's growth rate. According to Higgins (2001, 115) growth rate is the increase in a company's value of sales, total assets, or market capitalization. Gitman and Zutter (2012, 191) said that growth rate is the annual rate of change in values. Then, growth can be concluded as the total change of values in some period of time.

According to Emery *et al*. (2004, 141), stock price is determined by its stock value at the time n of the expected future dividends and eventual selling price. Damodaran (2001, 143) stated that market price (stock) represents the price at which the market clears, that is, where demand is equal to supply. Share value is the equal to the discounted stream of dividends per share not by the sum of discounted stream of dividends per share (Brealey *et al*.2006, 65). Shares price then can be defined as the price which the investor are willing to buy the shares with some consideration such as dividend paid, market condition and company condition. Then it can be concluded that growth of shares price shows the percentage rate of changes in shares price. Growth rate can be calculated through future value or present value interest factors which hereby in this research present value interest factor will be used because data used are historical data.

Previous Research

There are several researches that have been by other researchers which has related to this research. One of them was made by Christina and Halim (2008). They have developed relationship between determinants of capital structure such as company's profitability, company's size and company's dividend payout ratio to the growth of company's shares price.

Christina and Halim (2008) stated their hypothesis that company's profitability has negative relationship with company's leverage, ceteris paribus. Their research's resulted that company's profitability significantly has negative relationship with company's leverage because the Indonesia's interest borrowing rate was high and that made company more prefer to use internal financing to generate profits for their company. In their research, there are also stated in the hypothesis that there is positive relationship between company's size and leverage, ceteris paribus. This research's result is that company's size and its leverage has positively related. Hence, the company was tend to use more debt as its size is getting bigger because it can reduce costs such as agency costs.

As stated in their research's third hypothesis that there is negative relationship between dividend payout ratio and its leverage, ceteris paribus. Their research resulted that company's dividend payout ratio and its leverage are negatively related. Dividend paid to shareholders will decrease the amount of free cash flow held by the managers which will reduce manager's control and probability of agency costs occurred. Thus, the higher a company paid its dividend to the shareholders, internal financing will be more preferred and it would make level of leverage will decrease. Their research resulted that there are no positive relationship between company's leverage and its growth of shares price. Another research has been done by Seftianne and Handayani (2011) with using profitability (ROA), liquidity, size, risk, growth and managerial ownership as independent variable toward capital structure (leverage) as dependent variable has resulted that only size and growth has positively affected leverage.

Sasongko and Wulandari (2006) has also done research with ROA, ROE, ROS, EPS, basic earning power (BEP) and economic value added (EVA) as independent variable and shares price as dependent variable has resulted that only EPS has effected shares price. Joni and Lina (2010) also done research with using assets growth, size, ROA, business risk, DPR, and fixed assets ratio (FAR) as independent ratio toward leverage as dependent ratio has resulted that assets growth, ROA, and FAR has affect to leverage significantly. The other research done by Deitiana (2011) with using profitability (ROE), liquidity, growth of sales and dividend payout ratio as independent variable toward shares price as dependent variable has resulted that only profitability that has relationship with shares price.

CLOSING

Companies that have good performance seen by its ability to generate profits, the company's value will increase. The value of the company is reflected in the company's shares price. Company's size also refers to company's total assets. With the rising of the company's assets, company's ability to generating profit will increase which will make the company's value increase. The investors will more concern to the dividend paid from one company in the present time rather than the profitable price volatility in the future time. The company can be say in their optimal level when the company can balance its advantage and disadvantage which are arise from the using of debt. Therefore, an optimal capital structure will increase the company's value.

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