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The Effect of Inflation, Capital Structure, and ROA on Stock Returns in Food and Beverage Companies Listed on The Indonesia Stock Exchange in 2017-2020

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Abstract

This study aims to analyze the effect of inflation, capital structure, and ROA on stock returns in food and beverage companies listed on the IDX in 2017-2020. The sampling technique used in this study was purposive sampling method. The number of samples used in this study were 20 food and beverage companies listed on the Indonesia Stock Exchange in 2017-2020. The analytical method used in this research is multiple regression and the data is processed using SPSS. The hypothesis testing method uses a significant level of 0.05 (5%). The results of this study indicate that the inflation variable has a significant effect on stock returns, capital structure has no significant effect on stock returns, ROA has a significant effect on stock returns.

1. INTRODUCTION

The capital market is one of the most effective means of accelerating the development of a country. Law No. 8 of 1995 states that the capital market has a very strategic role in national development as a source of financing for the business world, a vehicle for investment for the community and ongoing activities related to a public offering and trading of securities, public companies related to securities issued, as well as institutions and professions. Investment activities carried out by investors are generally divided into two, namely investment in objects that have risks and free objects (Puspitasari, Herawati, & Sulindawati, 2017) .

The capital market has been considered one of the economic indicators in a country. When the capital market shows an increase, it can be ascertained that the country's economic indicators are experiencing development. Conversely, if the capital market is sluggish, it can be ascertained that the indicators in the country's economy are experiencing a decline or experiencing inflation. (Wiyono gendro, 2021) .

In the perspective of financial management, the company's goal is to maximize company performance or company value, which means maximizing the wealth of its shareholders. The company will try its best to maximize the value of its shareholders' wealth by carrying out effective activities that can increase the company's share price. In a company that *goes public,* it can be seen that the value of a company is reflected in the price of its shares traded on the stock exchange. Any increase in operational performance and financial performance will generally have an impact on stock prices on the stock exchange. Which is in the form of a price that is formed from an interaction of sellers and buyers of shares against the background of expectations for high company profits , which will ultimately increase the overall value of the company.

In this study raised three main factors that can influence the perspective of company stock returns, namely inflation, capital structure and ROA. The first factor is inflation, which is the tendency for overall product prices to increase, resulting in a decrease in the purchasing power of money. According to information from the central statistics bureau (www.bps.go.id) that during 2017, BPS recorded Indonesia's inflation rate of 3.61 percent. The inflation rate in 2017 was heavily influenced by government policies regarding the existence of goods and services that had been regulated by the government. During 2017 the increase in inflation was caused by an increase in food prices as a result of high demand from the public.

The second factor is capital structure. An analysis of the capital structure can be carried out using several methods, namely EBIT-EPS analysis, analysis of the debt *to equity ratio, (* Andow & Wetsi, 2018) *.* But in this study the capital structure is a combination of corporate debt, common stock and preferred stock. Capital structure is also the ratio commonly used to value liabilities to equity. This ratio is seen by comparing all liabilities, including current liabilities with all equity. The higher this ratio, the worse the company's performance. Vice versa if the lower the DER ratio, the better. A financially healthy company is2.2 indicated by a DER ratio below 1 or below 100%. So the company must try so that the DER is low or below the industry standard, namely 90% (Sestiyono, 2016) .

ROA *(return on assets)* is the rate of return on assets. Which is in the form of a financial ratio that shows a comparison of the net profit generated by the company with the capital that has been invested in an asset with profitability that is used to be able to measure the company's ability to generate profits or profit (profitability) at a certain level of income, assets and share capital. which shows the capabilities of a company that generates net income from investment assets. (Hartiyah & Putranto, 2019) .

2. LITERATURE REVIEW

2.1 Definition of Inflation

According to Sudarman, (2020) states that inflation is a condition that indicates a weakening of purchasing power which can be followed by a decline in the value of a real currency in a country for goods and services. The causes of inflation can be divided into three parts, namely: (a) demand *-pull inflation,* occurs when aggregate demand increases faster than the productive potential of an economy; (b) cost *-push inflation* , occurs when the exchange rate depreciates, increases in commodity prices regulated by the government and disrupts distribution; and (c) inflation expectation *,* occurs when the behavior of society and economic actors tends to be more adaptive *(forward looking)* (Salim, 2016) *.*

Inflation can be defined as a tendency to increase a price in general. The tendency referred to here is that the price increase does not just happen for a moment. In inflation, it explains the size of the economy which provides an illustration of the increase in the average price of goods and services that have been produced in an economic system.

2.3 Capital structure

According to Amri & Ramdani, (2020) stated that all funds in the form of total assets are owned by the company to meet company funding which can reflect the capital structure. Logically, an effective and growing structure can describe the level of profit in the future, the ease of financing within a company can affect the value of the company itself and is considered good information for investors. The relationship between risk and firm value through maximizing stock prices, that the more maximal the stock price, the higher the demand for these shares which will affect the company value in the eyes of investors, with the hope that they will get maximum income or return (Violita, Sulasmiyati, & Administration , 2017) . *capital* structure capital structure is a comparison or balance of long-term funding for companies which is shown directly by the ratio of long-term debt to equity. Capital structure is measured using *the debt to equity ratio* (DER). *debt to equity ratio* (DER) is an indicator of capital structure and financial risk, which is a comparison between debt and equity. *debt to equity ratio* (DER) is a simple calculation that compares a company's total debt to shareholder equity. The higher *the debt to equity ratio* (DER) the more it reflects the company's relatively high risk, as a result investors will tend to avoid stocks that have a high *debt to equity ratio (DER)* (Ningsih & Soekotjo, 2017) .

2.4 Roa *(Return on assets)*

Return on assets is a company's financial ratio related to profitability that is used to measure a company's ability to generate profits or profit at a certain level of asset income and share capital. (Samudra, 2020) Financial ratio analysis can be used as a measuring tool for financial performance. Financial ratio analysis is the basis for assessing and analyzing the company's operational performance.

2.5 Stock returns

Stock Return, is the return that will be received by investors on stock investment in a company, either in the form of *capital gains (losses)* or dividends. Or income expressed as a percentage of the initial investment capital. Investment income in a stock includes profits from buying and selling shares, where if there is a profit it is called capital gain and if there is a loss it is called *capital loss* . Apart from capital gains, investors can also receive cash dividends annually Kusmita & Sholichah, (2018) .

Annual stock returns are usually obtained by comparing the current year's stock price to the year's stock price previously. Stock return is the rate of return received by an investor from shares that have been traded in the capital market or profits enjoyed by investors on an investment they make.

Harnida, (2017) states that without an advantage that can be enjoyed from an investment, of course these investors don't want to bother investing in a company that will ultimately yield no results. Returns can be in the form of realized returns that have occurred or expected returns that have not occurred at all. But hopefully it will be better in the future .

3. RESEARCH METHODS

3.1 Nature of research

This type of research is quantitative research by testing the hypothesis. The quantitative research method is a type of specification research that is systematic, planned and structured very clearly from the beginning to the end of the research. According to Sitompul & Rahwana, (2021) the quantitative research method is a research method based on a positivist philosophy, which is used for certain research populations and samples, data collection uses research instruments, data analysis is quantitative or statistical with the aim of testing established hypotheses. The population used in this study are food and beverage companies listed on the IDX. With a sample of 20 financial statements. Data analysis techniques in this study used multiple regression, t test, f test and the coefficient of determination.

3.2 Operational research variables

a. Stock returns

Stock Return, is the return that will be received by investors on stock investment in a company, either in the form of *capital gains (losses)* or dividends. Or income that has been expressed as a percentage of the initial investment capital. Investment income in this stock includes the profit of buying and selling shares, where if there is a profit it is called capital gain and if there is a loss it is called *capital loss* . In addition to capital gains, investors will also receive cash dividends annually Kusmita & Sholichah, (2018) . Annual stock returns are obtained by comparing the current year's stock price with the previous year's stock price.

b. Inflation

According to (Jalil, 2021) Inflation is a condition of continuously increasing the price level. Inflation is a tendency to increase prices—the general prices of goods are not momentary. An increase in the price of one or two goods cannot be directly called inflation, unless the increase itself results in an increase in the price of other goods. The inflation rate indicator is usually measured using a price index to determine the level or rate of inflation, namely the CPI (consumer price index) and the GNP deflator (gross national product).

Inflation can result from two sides, namely the demand side *(demand pull inflation)* and the supply side (*cost push inflation)* . Demand inflation is inflation that starts due to an increase in demand for goods and services that is high in total (*aggregate demand)* , namely the total demand for final goods and services produced in an economy. while production has been in a state of full employment or almost close to full employment. In an almost full employment situation, the increase in total demand in addition to the price increase raises the price of production *(output). Cost push inflation* is usually characterized by rising prices and decreased production.

c. Capital structure

According to (Irawati et al., 2022) states that capital structure is a proportion in meeting company needs where funds are obtained using a combination of source guidelines obtained from long-term funds consisting of two main sources, namely those from within and outside the company. In addition, the capital structure is a ratio that has been used to measure a company's ability to repay debt costs through its own capital (Samudra, 2020) .

d. Roa *(return on assets)*

According to Kusmita & Sholichah, (2018) states *Return on Assets* (ROA) is a measure of a company's ability to generate profits with the assets used. In this study, it is represented by ROA, which is a ratio that is often used by management to measure a company's financial performance and assess operational performance in utilizing the company's resources, besides the need to consider financing issues for these assets.

4. RESULTS AND DISCUSSION

4.1 The Effect Of Inflation On Stock Returns

The results of partial hypothesis testing (t test) show that inflation has a partial positive and significant effect on stock returns. The results of this study are reinforced by research conducted by Richson Pardamean Silaban, (2020) which states that inflation affects stock returns.

Inflation is the most important macroeconomic variable. Thus increasing the prices of an item, it is likely that a company will experience an increase in costs for production as a result of inflation. The increase in costs experienced by a company can result in a decrease in profits which can also affect the company's stock return.

4.2 Effect Of Capital Structure On Stock Returns

The results of partial hypothesis testing (t test) show that capital structure has a negative and not significant effect on stock *returns* . The results of this study are in line with research conducted by Samudra,

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(2020) and which states that capital structure has a negative effect on stock returns.

4.3 The Effect Of *Return On Assets* On Stock Returns

The results of partial hypothesis testing (t test) show Profitability by proxy *Return On Assets* (ROA) has a positive and significant effect on stock *returns* . The results of this study are in line with research that was conducted by Hartiyah & Putranto, (2019) which stated that return on assets has a positive effect on stock *returns* .

5. CONCLUSION

5.1 Conclusion

Based on the discussion of the results of research on data regarding the effect of inflation, capital structure, ROA on stock returns in food and beverage companies listed on the IDX in 2017-2020. Look at the financial report data of food and beverage companies so that the following conclusions are obtained:

1) It can be concluded that inflation has a significant effect in a positive direction on stock returns in food and beverage companies because this shows that a company that can generate maximum profits will be considered good in the eyes of investors so that it can cause stock prices to increase and can achieve company goals to maximize the value of the company.
2) Capital structure (DER) has no significant effect in a negative direction on stock returns in food and beverage companies because this can indicate that in making investment decisions to be able to place their investment funds investors are not seen from the size of the DER value.
3) *return on assets* ROA has a significant effect on stock returns in food and beverage companies. Because in this case it shows that the company's financial performance is not a benchmark that investors see, but a high guarantee so that bankruptcy is reduced.

5.2 Research limitations

Another limitation lies in the study only using 3 financial ratios as independent variables, namely: inflation, capital structure and ROA. While there are still other financial ratios that are not used in this study. This is inseparable from the limitations of time and the ability of researchers.

5.3 Suggestion

Based on the research that has been done, the following suggestions can be given:

1) For companies, the company must first consider the opportunities that exist in the company for investment in the future and can improve the company's performance.
2) For investors and potential investors, before investing, they should not only analyze inflation conditions, capital structure and ROA, but analyze other financial performance and analyze the prospects for the company's industry in the future. So that the invested capital will generate sustainable *returns* . And also so that investors can be more observant to see how far the level of development of the company and can compare with other companies.
3) Further research is suggested to add other financial ratios as independent variables because it is very possible that other financial ratios that are not included in this study can have a strong effect on stock *returns* .

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