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The Effects of Financial Performance on Stock Returns in Manufacturing Companies listed on the IDX for the 2018-2022 Period

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Abstract

This research constitutes a quantitative study aimed at assessing the impact of financial performance on stock returns within manufacturing companies listed on the IDX during the 2018-2022 period. The sample for this study comprises 6 manufacturing companies listed on the IDX during the same period. The sampling technique employed is purposive sampling. The data employed in this research is secondary in nature, sourced from the financial reports of the respective companies accessible on the website www.idx.co.id. The data analysis methodology utilized in this study incorporates descriptive analysis, classical assumption testing, and multiple linear regression. These methods are facilitated through statistical calculations performed using SPSS version 24. The research findings demonstrate that the variables Current Ratio (CR) and Return on Assets (ROA) exhibit a significant impact on Stock Returns. Conversely, the variables Debt to Equity Ratio (DER) and Return on Equity (ROE) do not yield a significant effect on Stock Returns. In light of these results, companies are advised to enhance their financial performance in order to attract investor interest in their investments.

1. INTRODUCTION

In the modern era, often referred to as the Industry 4.0 stage, and soon transitioning into the 5.0 stage, the development of the industry has been rapidly advancing. As reported on the website ekon.go.id, the Indonesian manufacturing industry has been experiencing increased manufacturing activities. In September 2022, Indonesia's Manufacturing Purchasing Managers' Index (PMI) reached 53.7, a rise from August's 51.7. Notably, Indonesia's PMI for September 2022 exceeded the ASEAN country average of 53.7 (Moegiarso, S. 2022). Consequently, many companies are striving to maintain their performance to endure the fast and unpredictable pace of industrial development.

Maintaining performance necessitates significant capital. Companies seek capital not only through sales but also by becoming publicly listed through an Initial Public Offering (IPO) on the capital market. Ayumi, N. (2022) states that companies undergoing an IPO offer ownership shares to the public to obtain capital for business continuity.

The Indonesian Central Securities Depository (KSEI) reported that the number of investors in the Indonesian capital market reached 10 million by November 3, 2022, indicating a 33.53 percent increase compared to the previous year's 7.5 million investors (Dzulfarah, AN, 2022). Hence, both new and seasoned investors interested in investing in publicly listed companies first evaluate the company's stock returns. If the stock returns are favorable, investors are more likely to invest as capital is crucial for business continuity and performance (Ander, 2021).

Investors initially assess a company's performance before deciding to invest. Performance evaluation often involves financial ratio analysis, a widely used financial assessment tool aiming to depict a company's financial health (Kradini, NT, 2015). Such analysis helps uncover a company's financial strengths and weaknesses. Financial performance is a key indicator used by company management to gauge effectiveness and by investors before making investment decisions. Company performance assessment can be carried out by analyzing various financial ratios,

including liquidity, leverage, and profitability ratios.

2. LITERATURE REVIEW

2.1 Theory Signal

The signaling theory clarifies why companies feel compelled to furnish external parties with financial report information. This impetus stems from the presence of asymmetric information between the company's management and external entities. Management possesses a relatively greater and swifter access to internal company information compared to outside parties, such as investors and creditors (Simorangkir, RTMC, 2019).

2.2 Theory Review

a. Financial Performance Analysis

Financial performance signifies the accomplishments of a company's performance over a specific period, reflecting its financial health through indicators such as capital adequacy, liquidity, and profitability. The assessment of a company's financial performance is pivotal for evaluating its overall performance (Sarda, S., and Nasrullah, N., 2022). Financial analysis serves the purpose of confirming the outcomes of a company's performance within a designated timeframe, encompassing aspects like assets, liabilities, and equity. Financial size functions as an analytical tool employed to elucidate the interrelationships between various elements within financial reports (Lase et al., 2022).

b. Analysis Report Finance

The analysis of financial reports involves examining the financial activities of a company through the utilization of financial ratios. These ratios are employed to assess the financial condition of the company, determining whether it has achieved profitability or incurred losses. As per Halim, I. (2021), financial report analysis is a process employed to review, assess, and comprehend the information presented in the company's financial reports. The analysis of financial reports necessitates the application of appropriate methods and techniques to make well-informed decisions. A strong financial performance of a company leads to benefits for all stakeholders, including investors, creditors, financial consultants, securities, government entities, and the company itself (Sari, PA, and Hidayat, I., 2022).

c. Ratio Finance

Financial ratios involve the practice of contrasting the various segments within a financial report by comparing one section with another. This comparison can occur between components within a single financial report or among different financial reports (Ahmad, R., 2021). As stated by Shofwatun et al. (2021), financial ratios also serve as benchmarks for assessing a company's performance over an extended period. When evaluating the economic conditions on both the micro and macro levels, domestically and internationally, the analysis of financial ratios commences with the foundation of financial reports, namely balance sheets, income statements, and cash flow statements.

d. Miscellaneous Ratio

In general, financial ratios are categorized into five types. However, for this study, researchers exclusively employed four types of ratios:

1. Liquidity Ratio: Liquidity ratios assess a company's capacity to meet its short-term obligations. They compare short-term liabilities against available short-term resources to fulfill these obligations. One relevant liquidity ratio in relation to financial performance is the Current Ratio (CR), which gauges a company's ability to cover short-term obligations using its current assets. A higher current ratio signifies a better ability to settle various types of financial obligations (Suhendro, D., 2018).
2. Leverage Ratio: Leverage ratios evaluate a company's ability to meet its long-term commitments. Companies unable to fulfill their obligations typically have total debts surpassing their assets. This ratio concentrates on a company's liabilities. The Debt to Equity Ratio is utilized in this study,

indicating the extent to which a company's capital is funded by debt. An elevated debt ratio suggests the company relies heavily on debt. If a company's debt exceeds its owned capital, investors might perceive higher uncertainty regarding dividend payments (Wijayanto, E., and Putri, AN, 2018).

3. Profitability Ratio: Profitability ratios measure a company's capability to generate profit and offer insights into the effectiveness of its management. These ratios reflect the profitability derived from sales and investment income. The study employs Return on Assets and Return on Equity as profitability ratios. Return on Assets quantifies the return on the total assets employed by the company, while Return on Equity assesses net profit after taxes against the company's own capital. These ratios exemplify the efficient utilization of the company's resources (Andayani, M., and Ardini, L., 2016).

e. Stock returns

According to Simanjuntak, SW et al (2019), stock returns refer to the future profits that investors acquire based on the amount of funds they have invested. In the realm of stocks, investors accrue profits through two avenues: dividends and changes in the share price of the company, known as capital gains. Dividends represent the distribution of profits generated by the company, which is allocated to investors.

f. hypothesis

Hypothesis in study This are :

1. H1: Current Ratio (CR) has significant influence _ to returns stock .
2. H2: Debt to Equity Ratio (DER) has significant influence _ to returns stock .
3. H3: Return on Assets (ROA) has significant influence _ to returns stock .
4. H4: Return on Equity (ROE) has significant influence _ to returns stock .

3. RESEARCH METHODS

The type of research utilized in this study is quantitative, employing a descriptive approach. The research was conducted on the gallery floor of the IDX Investment Tower at Iqra University of Muhammadiyah Makassar, located on Jl. Sultan Alauddin No. 259. The research was carried out over a period of two months, starting from March and concluding in April 2023. Secondary data was the type of data employed, which encompasses information processed from other sources, such as studies in libraries, previous research, online resources, and supporting literature.

The data for this research was sourced from the financial reports of manufacturing companies listed on the Indonesia Stock Exchange during the 2018-2022 period. These reports were obtained from the website www.idx.co.id. The research population comprised 226 manufacturing companies listed on the Indonesia Stock Exchange between 2018 and 2022. The sample was selected using the purposive sampling method, resulting in a sample of 6 manufacturing companies listed on the Indonesia Stock Exchange during the same period.

The study focused on two variables: the independent variable and the dependent variable. The independent variables include Current Ratio (CR), Debt to Equity Ratio (DER), Return on Assets (ROA), and Return on Equity (ROE). The formulas for these variables are as follows:

$$\text{Current Ratio} = \frac{\text{Aktiva Lancar}}{\text{Hutang Lancar}}$$

$$\text{Debt to Equity Ratio} = \frac{\text{Total Hutang}}{\text{Ekuitas}}$$

$$\text{return on Assets} = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

$$\text{return on Equity} = \frac{\text{Laba Bersih}}{\text{Ekuitas}}$$

As for variable free that is Stock Return with formula

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

The collected data will be analyzed through several stages of testing. The first stage

involves conducting descriptive analysis. In the second stage, assumption tests, including classic tests like normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test, will be performed, along with double regression analysis. The third stage encompasses testing all the proposed hypotheses in this study. These hypotheses will be substantiated through partial tests and coefficient of determination tests..

4. RESULTS AND DISCUSSION

The discussion of this research is conducted by examining the results of data processing using SPSS 24. The primary aim of this study is to determine whether a relationship exists between the independent variables – Current Ratio, Debt to Equity Ratio, Return on Assets, and Return on Equity – and the dependent variable, which is Stock Returns. The interpretation of the study's results is as follows:

4.1 The results of the study demonstrate a significant effect of the Current Ratio on Stock Returns.

This finding supports the first hypothesis, indicating that the Current Ratio has a significant impact on Stock Returns. This outcome is in line with previous research conducted by Noviyanti, A., & Yahya, Y. (2017), which also showed that the Current Ratio has a significant effect on Stock Returns. A higher Current Ratio signifies the company's ability to fulfill short-term obligations, thereby influencing company operations and attracting internal investors to invest in the stock. The interpretation is that as the Current Ratio value increases, the company's net profit generated also increases. A higher Current Ratio suggests smoother operations and activities within the company, resulting in higher profits. Thus, the Current Ratio can be used as a valuable signal for internal investors to estimate future stock returns.

4.2 The study's results reveal that the Debt to Equity Ratio (DER) does not have a significant influence on Stock Returns.

This finding negates the second hypothesis, which posited that the Debt to Equity Ratio significantly affects Stock Returns. This result is consistent with previous research conducted by Juwita, R., and Ratih, S. (2021), which also showed that the Debt to Equity Ratio does not significantly influence Stock Returns. Statistical results imply that the information conveyed by the published DERs in financial reports is not sufficient for internal investors to estimate returns. Thus, a high or low DER does not necessarily correlate with high or low stock returns. This could be due to the fact that the company's leverage ratio is influenced not only by management performance but also by other factors, such as profits. As a result, DER does not significantly impact investor decision-making in terms of investment.

4.3 The study's results indicate that Return on Assets (ROA) significantly influences Stock Returns.

This supports the third hypothesis, which stated that Return on Assets significantly affects Stock Returns. This outcome is consistent with research by Pangetsu Satro Putro and Andi Wijayanto (2020), which also showed that Return on Assets significantly impacts Stock Returns. Statistical results suggest that ROA serves as an indicator that compares pre-tax net profit to total assets. This indicates the company's ability to utilize internal assets to generate a profit. A higher ROA suggests greater net profit generation relative to the assets owned by the company. Conversely, a negative ROA implies the company is in a loss position. ROA reflects the company's performance in generating a profit from the assets it possesses, ultimately influencing Stock Returns. Companies with higher net profits are more likely to distribute

dividends to stock investors, thus impacting Stock Returns. Therefore, Return on Assets can be utilized as an indicator for internal investors to estimate potential future stock returns.

4.4 The results of the study reveal that Return on Equity (ROE) does not significantly influence Stock Returns.

This aligns with the fourth hypothesis, which proposed that Return on Equity significantly affects Stock Returns. This finding is supported by previous research conducted by Jefri, J. et al (2020), which also demonstrated that Return on Equity is not a significant factor in determining Stock Returns. The study indicates that high Return on Equity is often associated with higher stock prices, which can diminish investor interest in investing. This indicates that Return on Equity may not serve as an effective indicator for analyzing Stock Returns. In conclusion, the study's results provide insights into the relationships between the selected financial ratios and Stock Returns. The examination of these variables contributes to a better understanding of how financial performance indicators impact stock market outcomes.

5. CLOSING

5.1 Conclusion

The conclusions drawn from the research results are as follows:

1. Based on the data test results of the research, Current Ratio has a significant effect on stock returns in manufacturing companies listed on the IDX for the period 2018-2022.
2. Based on the data test results of the research, Debt to Equity Ratio has no significant effect on stock returns in manufacturing companies listed on the IDX for the period 2018-2022.
3. Based on the data test results of the research, Return on Assets has a significant effect on stock returns in manufacturing companies listed on the IDX for the period 2018-2022.
4. Based on the data test results of the research, Return on Equity has no significant effect on stock returns in manufacturing companies listed on the IDX for the period 2018-2022.

5.2 Suggestion

Based on the aforementioned conclusions, the researchers propose the following suggestions:

1. For Investors: Potential investors should focus on analyzing a company's performance as reflected in its published financial reports. The findings of this study can serve as a reference or a tool for making informed investment decisions, thereby mitigating investment risks.
2. For Companies: It is recommended that companies provide comprehensive and transparent financial information to prevent investors and external parties from receiving inaccurate data. Furthermore, companies are encouraged to enhance their overall performance. In the context of manufacturing companies studied, it is advisable to improve the capability to meet financial obligations, ensuring that the Debt to Equity Ratio (DER) remains below the critical threshold of 1.33, in line with the pecking order theory. By doing so, concerns among investors about excessive debt utilization can be alleviated, leading to a more favorable perception. This, in turn, can boost investor confidence in purchasing company shares. Additionally, manufacturing companies should strive to augment both total equity and net income, resulting in an improved Return on Equity (ROE). Efficient management of equity is crucial to maximize profit generation. Lastly, pursuing increased sales could contribute to higher net profit.
3. Further Research: For future researchers exploring related topics, it is advisable to extend the research timeframe or use more recent data. Utilizing different

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subjects for the study and incorporating variables not considered in this research could offer valuable insights and a more comprehensive understanding of the subject matter.

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