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# THE EFFECT OF FINANCIAL PERFORMANCE ON STOCK RETURNS ( EMPIRICAL STUDY ON FOOD AND BEVERAGE COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE 2016-2020)

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**ABSTRACT**
This research aims to determine the effect of financial performance on stock returns . The dependent variable used is Stock Return while the independent variables are Current Ratio (CR), Debt to Equity Ratio (DER), and Return On Assets (ROA) . The population in this research is Food and Beverage companies listed on the Indonesia Stock Exchange (BEI) in 2016-2020. The sampling technique uses a purposive sampling method . Of the 30 companies listed on the Indonesia Stock Exchange (BEI), only 17 companies were used as samples for this research. The data analysis technique uses multiple linear regression analysis with SPSS20. Before carrying out multiple regression analysis, the classical assumptions are first tested. Based on the results of hypothesis testing, it shows that there is one variable, namely Debt to Equity Ratio (DER) , which has a significant positive effect on stock returns , while the Current Ratio (CR) and Return On Assets (ROA) have no significant effect on Stock Returns .

**Keywords:** Financial Ratios , Stock Returns , and Indonesia stock exchange.

## INTRODUCTION

The capital market has an important role in the current era of globalization, as a supplier of offices to channel assets from parties who have excess reserves (investors) to parties who need reserves (issuers). Therefore, the funds obtained can be used as well as possible. The capital market instrument that is known to many people is shares. By exchanging shares in the capital market, the organization acquires assets for its survival. The capital market itself is an activity to obtain additional funds without having to wait for the results of operational activities. Capital markets actually provide an opportunity to organizations to compete in a healthy manner, a determination attracting all financial backers to put resources into their organizations in this period of change. The capital market really helps companies in driving operations operationally.

The aim of financiers (investors) put resources into shares to get extraordinary results (speed of return) with a certain level of danger and low level of opportunity, then they will favor organizations that have more significant results, the increase in capital markets can also show the level of *financial* trust to place their resources into the Indonesian capital market, even though shares have stakes, *financial* hopes for stock *returns . The stock return* itself is obtained in two structures, namely profits and additional capital. Investors have the right to earn profits in the form of dividends in accordance with their capital, investors are able to assess the company's operations.

For the current research, the liquidity ratio is used to measure fulfilling temporary commitments by utilizing current resources, to provide justice at some point, the solvency ratio is used, while the profitability ratio here is to assess the company's ability to obtain profits from both total assets and sales.

Liquidity ratio research (proxied as *Current Ratio* ) or called ( *CR* ), is used to measure an organization's capacity to meet temporary commitments that will develop by utilizing the complete resources currently accessible. This proportion describes how large all current resources are, so that the sustainable proportion is determined as the remainder between absolute current resources and all current liabilities. (Hery, 2016:152).

The solvency ratio (proxied by the Debt to Equity Ratio ) or called ( DER ), is used to measure the proportion of debt to capital. This proportion is determined as the remainder between all liabilities and value. This proportion is valuable as a measure of the correlation between how many assets are provided by the lender and how many assets are from the owner of the organization. (Hery, 2016:168).

Profitability ratio (proxied as Return On Assets ) or called ( ROA ), this ratio is used to measure a company's ability to generate profits from its normal business activities. Estimation of the proportion of productivity must be possible by looking at different parts of the salary explanation over several periods (Hery, 2016: 192).

The current research is Food and Beverage companies that are on the Indonesia Stock Exchange in 2016-2020, this includes processing this objective because the era of turnover of manufacturing companies in Indonesia is growing better, especially in food and beverage companies, this sector can be said to be part of the level stable because the goods produced are primary needs, which are always needed by consumers. Therefore it requires some funds from share buyers.

In this exploration we will concentrate on the impact of monetary execution on stock returns. Companies use financial performance to predict company returns . Because it considers the importance of stock investments to the financial backer in deciding whether the financial backer has the desire to put resources into the organization. Based on the background description above, this research is entitled "The Influence of Financial Performance on Stock Returns (Empirical Study of Food and Baverage Companies Listed on the Indonesia Stock Exchange 2016-2020)".

## LITERATURE REVIEW

### Finance

Finance is the science and art of managing financial aspects so that they can influence life and companies (Ridwan and Inge, 2003). Companies need to implement good financial management, the financial reports presented must also be relevant to the assets and liabilities of the company. The company's financial reports consist of Balance Sheet, Profit and Loss, Cash Flow, Changes in Capital, and Report on Financial Position. By implementing these financial reports each period, the company can minimize the risk of loss, besides that it can also be the foundation for the company's growth in the long term.

### Financial Performance

To find out whether the financial position is in good condition or not in a certain period (Azzahra and Nasib, 2019). To measure financial performance in a company, it can be done through several financial ratio analyzes:

Current Ratio (Formula 1) , this analysis aims to measure the level of the company's ability to pay short-term debt or current debt that is due.

*Current Ratio = Current Assets / Current Liabilities* (1)

Debt to Equity Ratio (formula 2) , this analysis compares the total debt owned by the company with the company's capital.

*Debt to Equity Ratio = Amount of Debt / Amount of Capital* (2)

Return On Assets (formula 3) , an analysis that shows the percentage of company profits to generate income from the assets owned.

*Return On Assets = (Net Income : Total Assets) x 100%* (3)

### Share

In this modern era, we often come across companies and individuals who invest, one of which is in shares. According to Darmadji and Fakhruddin (2001:23) shares are a sign of participation or ownership of a person or entity in a company or limited liability company.

**Stock Returns**

Return is a reward or rate of return, so stock return is the rate of return on shares. According to Tandelilin (2010:102), one of the factors that triggers investors to invest is to obtain a return .

## METHOD

The location of this research is food and beverage companies listed on the Indonesia Stock Exchange (BEI). In this review, we will take information from the annual fiscal reports of food and beverage companies, through the Indonesia Capital Market Directory (ICMD), and www.idx.co.id The population in this research is Food and Beverage companies on the Indonesia Stock Exchange (BEI) in 2016-2020. This research used 30 companies, the sampling technique was carried out using the purposive sampling method. The information sorting technique used in this research is the SPSS for Windows program. First, collect secondary data, after that it is processed using descriptive factual investigation, classical assumption testing, coefficient of determination testing, then hypothesis testing.

The type of research that will be used is cooperative research with quantitative methodology. Associative research is a type of research that analyzes the relationship between one variable and other variables. In this research, what is independent is financial performance which is proxied by financial ratios CR, DER, ROA for the dependent variable is Stock Return.

## RESULTS

**Table 1. Descriptive Statistical Test Results**

| | N | Minimum | Maximum | Means | Std. Deviation |
|---|---|---|---|---|---|
| Current ratio | 85 | 0.1500 | 8.6400 | 2.234824 | 1.8062053 |
| Debt to Equity Ratio | 85 | 0.0000 | 1.7300 | 0.459294 | 0.4570448 |
| Return on Assets | 85 | 0.0000 | 2.6400 | 0.134235 | 0.2998943 |
| Return Shares | 85 | 3.9120 | 9.6803 | 7.183144 | 1.4606335 |
| Valid N (list) | 85 | | | | |

**Source: Secondary data processed with SPSS (2020)**

The table shows that the factor exploration is clear with a total of 85 valid information for each variable as follows. Current Ratio recorded a minimum value of 0.1500 and a maximum value of 8.6400. with an average value of 2.234824. The Debt-to-Equity Ratio recorded a minimum value of 0.0000 and a maximum value of 1.7300 with an average value of 0.459294. Return On Assets recorded a minimum value of 0.0000 and a maximum value of 2.6400 with an average value of 0.134235. Return share recorded a minimum value of 3.9120 and a maximum value of 9.6803 with an average value of 1.4606335.

**Classic assumption test**

**Normallity Test**

**Table 2. Kolmogorov-Smirnov results**

| | | Nonstandardized Residues |
|---|---|---|
| Normal Parameters [a, b] | Means | 0E-7 |
| | Std. Deviation | 1.28791671 |
| The Most Extreme Difference | Absolute | 0.072 |
| | Positive | 0.072 |
| | Negative | -0.068 |
| Kolmogorov-Smirnov Z | | 0.664 |
| Asymp. signature. (2-tail) | | 0.769 |

**Source: SPSS processing results (2020)**

Based on the consequence table, the regularity test using the Kolmogorov Smirnow test

shows that there is a typical relationship. Considering the consequences of the SPSS results, a KS value of 0.664 is obtained with a critical probability of 0.769 and an Asymp value. Sig (followed by 2) is more than a = 0 .05. This shows that information is usually disseminated.

**Multicollinearity Test**

Results The multicollinearity test on the computational results shows that there are no independent factors that have a barrier value of 0.1 (0.828 – 0.980). This is the same as shown by the VIF value, where VIF ≥ 10 (1.207 – 1.021) so that conclusions can be drawn that the relapse model in this study does not experience multicollinearity, and the relapse model can be used. Autocorrelation Test

**Autocorrelation Test**

**Table 3. Autocorrelation Test Results**

| Model | R | R square | Durbin-Watson |
|---|---|---|---|
| 1 | 0.472 [a] | 0.223 | 0.224 |

**Source: SPSS data processing results (2020)**

The DW value is 0.224. These values will be compared and the Durbin-Watson table value uses an importance value of 5%, the number of tests is 85 (n) and the number of independent factors is 4 (k = 3), then at that time the Durbin-Watson table will obtain the value as far as possible (dl), more specifically 1.5632 and the upper limit value (du) is 1.7164 (dl ≤ d ≤ du with the result 1.5632 ≤ 0.224 ≤ 1.7164). So that there is no autocorrelation between independent variables, so the regression model is suitable to be used.

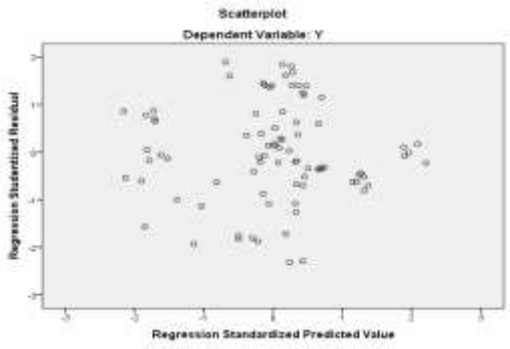


**Figure 1. Scatter plot**
**Source: SPSS data processing results (2020)**

The test results above show that the focus spreads randomly and does not frame certain examples, so it tends to be considered that heteroscedasticity does not occur.

**Multiple Linear Analysis Test**

**Table 4. Multiple Linear Regression Test Results**

| Model | | Unstandardized Coefficients | | Standardized Coefficient |
|---|---|---|---|---|
| | | B | Std. Error | Beta |
| 1 | (Constant) | 7,308 | 0.344 | |
| | Cr | 0.164 | 0.087 | 0.203 |
| | DER | -1.115 | 0.345 | -0.349 |
| | ROA | 0.149 | 0.482 | 0.031 |

**Source: SPSS processing results (2020)**

Table 4 above shows various conditions of direct recurrence as follows (Formula 4).

$$Y = 7.308 + 0.164\ X_1 - -1.115\ X_2 + 0.149\ X_3 + e \quad (4)$$

**Model Feasibility Test**

**Coefficient of Determination Test**

Based on this table, the correlation coefficient (R) value of 0.194 indicates that the relationship between the independent variable (Curren Ratio, Debt to Equity Ratio, Return on Assets) and the dependent variable (Share Return) is very strong. The coefficient of determination ($R^2$) is 0.194. So it shows that the relative contribution of the combined independent variables (Current Ratio, Debt to Equity Ratio, Return On Assets) to the dependent variable (Stock Return) is equal to amounted to 19.4% while the remaining 80.6% was influenced by other factors.

**Table 5. Results of the Coefficient of Determination ($R^2$)**

| Model | R | R square | Adjusted R Square | Std. Estimation Error |
|---|---|---|---|---|
| 1 | 0.472 [a] | 0.223 | 0.194 | 1.3115502 |

**Source: SPSS data processing results**

**F test**

**Table 6. Simultaneous Hypothesis Test (f Test)**

| Model | | Sum of Squares | Df | Means Square | F | signature. |
|---|---|---|---|---|---|---|
| 1 | Regression | 39,877 | 3 | 13,292 | 7,727 | 0,000b |
| | Remainder | 139,333 | 81 | 1,720 | | |
| | Total | 179.210 | 84 | | | |

**Source: SPSS data processing results (2020)**

It can be seen that there is an influence of the Current Ratio, Debt to Equity Ratio, Return on Assets on Stock Returns. From this table, the F-count value is 7.727 and 0.000, so it tends to be seen that the critical value is below 0.05 (0.000 < 0.05). This shows that the Current Ratio, Debt to Equity Ratio, Return On Assets together have a significant effect on stock returns in Food and Beverage companies listed on the Indonesia Stock Exchange (BEI) in 2016-2020. So this shows that hypothesis 4 ($H_4$) is accepted.

**T test**

**Table 7. Partial Hypothesis Test (t Test)**

| Model | | Q | signature. |
|---|---|---|---|
| 1 | (Constant) | 21,269 | 0,000 |
| | Cr | 1,889 | 0.062 |
| | DER | -3,232 | 0.002 |
| | ROA | 0.309 | 0.758 |

**Source: Data processing results SPSS (2020)**

From testing the influence of autonomous factors on the dependent variable is as follows. Hypothesis Testing 1: Based on the consequence table from various direct repetition tests, the sig value < α (0.062 < 0.05) and the calculated t value > t table (1.889 < 1.66388) are obtained. So it can be concluded that the Current Ratio has no significant effect on stock returns in Food companies and Beverage which is listed on the Indonesia Stock Exchange (BEI) in 2016-2020. So the first hypothesis is accepted. Hypothesis Testing 2: Based on the multiple liner regression test results table, the sig value > α (0.002 < 0.05) and the calculated t value > t table (-3.232 < 1.66388). So it can be concluded that *the Debt to Equity Ratio* has a significant effect on *stock returns in Food and Beverage* companies listed on the Indonesia Stock Exchange (BEI) in 2016-2020. So the second hypothesis is accepted. Hypothesis Testing 3: Based on the multiple linear regression test results table, the sig value > α (0.758 > 0.05) and the calculated t value < t table (0.309 < 1.66388) are obtained. So, it can be said very well that Return On Assets

has no effect on *Stock Returns in* Food and Beverage companies listed on the Indonesia Stock Exchange (BEI) in 2016-2020. So, the third hypothesis is rejected.

## CONCLUSION

In conclusion, the research findings indicate that while the **Debt-to-Equity Ratio (DER)** has a significant impact on stock returns, both the **Current Ratio (CR)** and **Return on Assets (ROA)** show no significant effect on stock returns. This suggests that a company's financial leverage, as reflected by DER, plays a more crucial role in influencing stock returns compared to liquidity or profitability measures like CR and ROA.

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