

# Effect of Financial Performance on Stock Return: Evidence from the Food and Beverages Sector

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Company financial performance is a fundamental factor in influencing changes in stock returns obtained by investors. This study estimates and analyzes the effect of five financial ratio factors, which include; Current Ratio (CR), Debt to Equity Ratio (DER), Asset Return (ROA), Earning per Share (EPS), and Price-earning Ratio (PER) to Stock Returns. The research sample consisted of 15 food and beverage sector companies listed on the Indonesia Stock Exchange in 2013-2017. The data analysis method used is panel data regression. Partial testing shows that the DER variable influences the movement of stock returns in a negative way, while ROA and EPS have a positive effect. In contrast, CR and PER variables do not affect the movement of stock returns. Test results cumulatively show that all independent variables simultaneously affect stock returns. The results of this study provide implications for investors to consider company financial performance factors (DER, ROA, and EPS) in investment decision making.

**Key words:** *Stock return, financial performance, food and beverage sector.*

## Introduction

Investment is a commitment of amount of funds by respective investors for the purpose of gaining future profit. However, before investing, an investor needs to pay attention to whether the invested capital is able to provide the desired return by determining the performance of the company concerned. The fundamental and technical information obtained in financial statements is used as a basis for investors to predict returns, risks and uncertainties, amount, time and other factors related to investment activities in the capital market (Endri, 2018; Ryan, 2018).

Food and beverage sector companies experienced growth that exceeds the growth of Gross Domestic Product (GDP) during the 2013-2017 period such that in 2016, GDP growth from the food and beverage sector increased from the previous year and reached 8.07% while National GDP actually dropped to 4.94% the previous year. An interesting phenomenon from the growth data of the food and beverage sector shows a significant decline from 2013. However, in 2016 and 2017, the stock returns in the food and beverage sector appear to show a good increase. The financial fundamental performance of these company's current ratio presents the phenomenon that the food and beverage sector companies, during 2013-2017, experienced gradual slow increase. The current ratio level in 2015 gradually increased, inversely proportional to the decline in stock returns in 2015. The phenomenon of DER movement in the food and beverage sector also showed that in 2013-2017, stock returns experienced a decline, where fluctuations up and down could have a positive impact on investor returns. It can be seen that although from 2013-2015 stock returns declined, during 2016-2017, stock returns increased profits from the previous year.

An interesting phenomenon is also shown by the movement of ROA of companies in the food and beverage sector which indicates that in 2013-2017 that ROA performance experienced fluctuations and was followed by changes in stock returns. Information about the level of fluctuations is very important for investors. This reflects how the condition of assets owned by a company, EPS, is used to show the amount of income or profit obtained from each share. The phenomenon of EPS movement in the food and beverage sector in the EPS factor from 2013 to 2017 tended to decrease. In 2015, EPS decreased, but in 2016-2017, EPS increased. PER can be considered as an indicator of market optimism for companies. The phenomenon of PER movement in the food and beverage sector also experienced fluctuations. In summary, although in 2015 there was a decline, in 2016-2017, the movement of PER increased and this is the same as the fluctuations experienced by stock returns.

Many previous studies have been conducted to observe how investments generate corporate stock returns which can be explained based on the influence of fundamental factors. Some researchers show interesting results due to the diversity of their findings. According to Shkeel (2018), Marwadi et al. (2016), and Meri (2013), CR has the opposite effect on stock returns (SR), whereas according to Suantari et al., (2016), CR has a positive effect. According to Rio (2016) ), and Hafnidan & Anggraini (2018) CR has no impact on SR. James (2015), Aldiena & Hakim (2019) and Suantari et al., (2016) found that DER has a positive effect on SR, but according to Saragih (2018), Tan (2015), and Puspitadewi & Rahyuda (2016) DER has a negative effect. Widyawati & Endri (2018), Said et al., (2018), Tumonggor et al., (2017), and Akbar & Harianingrum (2015) determined that DER has no effect on SR while Anwaar (2016), and Shkeel (2018) found ROA has a positive effect and Harahap (2018), ROA a negative effect which is consistnet with Endri (2019), Gunaratne & Anuradha (2016), and Nalurita (2015)

who explain that ROA does not affect SR. According to Syahputri & Herlambang (2015), Febrioni et al. (2016), and Gilang & Kesuma (2015) EPS has a positive influence on SR, whereas according to Anwaar (2016), and Putra & Kindangen (2016), EPS has a negative effect on SR, but according to Hafnidan & Anggraini (2018), EPS does not affect SR. Said et al., (2018), and Puspitadewi & Rahyuda (2016) found PER has a positive effect on SR, whereas according to Akbar & Harianingrum (2015) found PER has a negative effect, but according to Wijesundera et al., (2015), Shkeel (2018), and Nalurita (2015) PER does not affect SR.

## **Literature Review**

### ***Signalling Theory***

Signalling theory is a theory focused on the difficulties of prices in the market and the consequent influence on investor decisions (Benyamin & Endri, 2018). Whatever information occurs as the condition of the stock always has an effect on the investor's decision as the party that receives the signal. Signal theory indicates a tendency for information asymmetry. Information asymmetry is a condition where a party has more information than others, for example, the company's board of directors has more information than capital market investors.

### ***Arbitrage Pricing Theory (APT)***

Arbitrage Pricing Theory is a multi-factor model of asset pricing which refers to the view that states that asset returns can be analyzed using the relationship that lies between the same asset and general risk factors. The theory discovered by Stephen Ross in 1976, was used to estimate the relationship between portfolio returns and many factors that reflect systematic risks that can be represented by macroeconomic variables (Bowens & Endri, 2018).

### ***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 (Relly and Brown, 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

An efficient market in the weak form means that all information in the past (historical) will be reflected in the price formed now. Based on the EMH Weak form, the stock price will reflect all historical information, including the volume of previous trading data, rate of return, and previous prices. According to Relly & Brown (2012: 142), this allegation or hypothesis shows that the previous rate of return and other historical data does not have a relationship to the future rate of return.

### 2) Semi-strong form market efficiency

The market form of Semi strong has a greater level of market efficiency than the weak form. In the form of semi-market markets, historical data in the form of information about shares (price, volume, etc.) on the capital market is known and used as a reference for investors to make further investment decisions. Apart from this information, public news is also obtained and used as a reference by investors in making further investment decisions.

### 3) Strong market efficiency (strong form)

In weak and semi-strong market conditions, historical data and public information will be a reference for investors when making investment decisions. However, in a strong market condition, the information investors can obtain is not only public information, but also includes private information. Market conditions will be said to be perfect or strong, if private information is reflected in the stock price so that no information is owned or stored by individuals, especially individuals in an issuer. If the market is efficient in the form of strength, then no investor can obtain abnormal profits.

## ***Stock Returns (SR)***

Stock returns can be defined as the level of profits earned and expected by investors from an investment over a certain period of time, and that will be obtained in the future. The yield is the profit shared by the company to investors both individually and institutionally which is the result of their investment policy (Fahmi & Yovi, 2009: 151). According to Endri (2018), investor interest to invest in the capital market is to gain returns that are in line with their expectations of investment activities.

## ***Financial Ratio***

Financial ratios are comparisons of two items in accounting records on a company's financial statements. Financial ratios are intended to conduct an evaluation of the financial health condition of the company at the time the financial statements were prepared. The results of financial ratios can reflect the state of a company's financial performance. Some financial ratios that are applied in this study include, among others;

1. Current ratio (CR)

CR is a measurement of financial performance that can explain the amount of current assets owned by a company to be able to pay current debts with shorter repayment periods and must be paid immediately

2. Debt to Equity (DER) Ratio

DER is an indicator used to assess the ratio of debt to equity, which shows that if a company has a large debt, it becomes unprofitable and a heavy burden. This is caused by a greater risk that can adversely affect the company's failure to fulfil its obligations (Widyawati & Endri. (2018).

3. Return on Assets (ROA)

Referring to Sartono (2012: 123), ROA is an indicator that is made as a guideline for companies in gaining profits from the assets used. If ROA is higher, then the possibility of dividend distribution also increases. Greater ROA value also indicates the condition of the company.

4. Earning per Share (EPS)

Referring to Fahmi (2013: 96), EPS is the share of profits distributed to shareholders of each share they own.

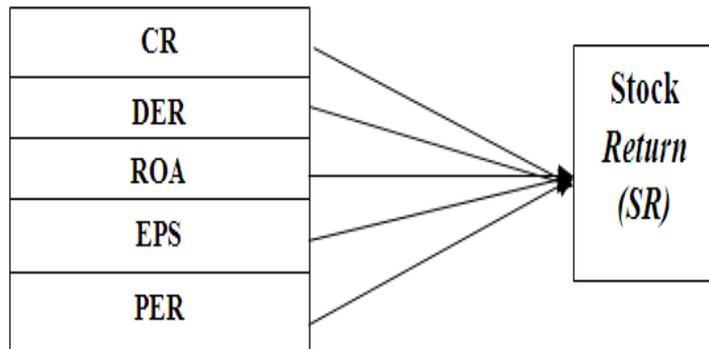
5. Price-Earnings Ratio (PER)

According to Hartono (2009: 73), PER shows the ratio of share price to income. This ratio shows how much investors value the price of a stock against a lot of income. This ratio also shows the comparison between the price per share and EPS of the intended stock.

### ***Theoretical Framework***

Forming a research framework with reference to the relevant theoretical foundation and a study of previous research on financial performance on stock returns giving conflicting results, will examine whether CR, DER, ROA, EPS and PER affect the stock returns of the food and beverage (F-B) companies . Next, the research framework will be illustrated in the following framework depicted in Figure 1 below:

**Figure 1.** Research Theoretical Framework



### *Hypothesis*

#### 1. The Effect of CR on SR

CR ratio serves to assess the company's financial condition to pay off short-term liabilities or debt that are due soon against all total liabilities. From the ratio measurement results, if the CR ratio is high or increases, it is an indication that the company has no problem paying off its debts. This statement is a reference to state that CR has a positive influence and is evidenced from several previous studies conducted by Suantari et al., (2016). Referring to the previous explanation, the statement of the research hypothesis is as follows:

H1: The CR factor is in the same direction as SR in the F-B companies listed on the IDX.

#### 2. The Impact of DER to SR

The DER ratio is calculated using the ratio of total debt divided by total value of equity held by shareholders. The higher the DER, the greater the company's dependence on outsiders so that the risk level of the company is more vulnerable in meeting its debt, namely paying the principal debt plus interest. A high DER value has the opposite effect on falling stock prices. This also shows that DER has a negative influence on SR. This is corroborated by empirical evidence conducted by Tan (2015), and Puspitadewi & Rahyuda (2016). Referring to the views and empirical findings described above, the statement of the proposed research hypothesis is:

H2: DER ratio has a negative effect on SR in F-B companies listed on the IDX

#### 3. The Effect of ROA on SR

ROA can be used to assess the strength of a company to fund all investments in assets that support production activities to obtain optimal profits. The higher the ROA, the greater the potential that production activities run efficiently and are able to gain maximum profit. High ROA performance indicates a high level of productivity in the use of assets in obtaining net income, so that a company's shares will be more profitable for investors, because it will provide

greater returns for investors. Some researchers who tested the effect of ROA on SR obtained the results that ROA has a positive effect on hospitals including: James (2015), Nurhakim et al. (2016), Manopop (2015), Heryanto (2015), Shkeel (2018), Saleh (2015)), and Gilang & Kesuma (2015). From the statements described above, the following hypotheses can be formulated:

H3: The ROA factor has a positive effect on SR in F-B companies listed on the IDX

#### 4. The Effect of EPS on SR

The EPS ratio has been used by previous researchers as a determinant of stock returns and found a decisive relationship between them. The rule is the higher the EPS, the higher the investor return. In this field of research, Gunaratne & Anuradha (2016), Febrioni et al., (2016), Shkeel (2018), and Tan (2015) investigated the effect of EPS on SR and obtained the result that EPS influences in the same direction as SR and from the above discussion, the following hypothesis can be formulated:

H4: EPS ratio influences in the same direction as SR in F-B companies listed on the IDX

#### 5. The Effect of PER on SR

PER ratio is a measure that is always a benchmark in determining the exact price of a company's shares. A high PER value indicates that the value of inventory is more expensive. Many researchers have used PER as a determinant of stock returns and found a decisive relationship between them. Puspitadewi & Rahyuda (2016). and Hafnidan & Anggraini (2018) who tested the effect of PER on stock returns, proved that PER affects in the same direction as SR. Referring to the empirical evidence, the research hypothesis is stated as follows:

H5: PER ratio influences in the same direction as SR in F-B sub-sector companies listed on the IDX.

## Methodology

The design of this study is intended to measure the causal relationships of the variables studied to fit the research framework. This study estimates the factors that affect SR as the dependent variable, which consists of CR, DER, ROA, EPS and PER factors as explanatory variables. The total research population is 21 companies in F-B which were listed on IDX in 2013-2017. The sampling method used is purposive sampling, where sampling is adjusted to the required sample requirements. The number of samples selected was 15 companies. The type of data used is secondary data categorized as cross sections and time series taken in the 2013-2017 period. The data analysis method used in this study is a panel data regression model, with the following estimation equation:

$$SR_{it} = \alpha + \beta_1 CR_{1it} + \beta_2 DER_{2it} + \beta_3 ROA_{3it} + \beta_4 EPS_{4it} + \beta_5 PER_{5it} + \varepsilon_{it}$$

Where:

SR	=	Stock Return
CR	=	Current Ratio
DER	=	Debt Equity Ratio
ROA	=	Return On Asset
EPS	=	Earnings per Share
PER	=	Price-earnings Ratio
$\varepsilon$	=	component error
i	=	indexes firms
t	=	years

The analysis tool used for processing statistical data in this study uses the E views 10 program. Using the E views 10 program, in addition to obtaining accurate and precise results, ensures that data processing can be conducted quickly.

## **Analysis and Discussion**

### ***Descriptive Analysis***

A summary of the statistical data of the research variables is summarized in Table 1 below, consisting of averages, medians, standard deviations, maximum and minimum values. The research data consisted of 15 companies that were inversed over a five-year period from 2013 to 2017. The average stock returns of food and beverage companies were quite high, reaching 20%, where there were companies that experienced negative returns of 76% and vice versa there were which reached a return of 267%. This also shows that the volatility of stock return movements is quite high as seen from the standard deviation of 52%. The average current ratio of 2.07 with a minimum value of 0.51 and a maximum of 8.64 with a fairly high standard deviation of 1.47, means that among companies have an unequal CR value. The debt level shown by DER shows that the average value is not too high with an average value of 1.04, but there are companies that have a large enough debt level with a maximum value of 3.03, while a minimum value of 0.17. In terms of profitability in a comparison of food and beverage companies, there are varied results with an average value of 0.12 and within this statistic, there are companies that experience negative ROA of 0.10 (min) and the highest value of 1.80 (max). For EPS variables, the average value is 2034.48, with a minimum value of -171.47 and a maximum of 55576.08. Finally, the EPS indicator with an average value of 23.30 shows a minimum value -29.24 and a maximum value 237.99 as presented in Table 2.

**Table 1:** Descriptive statistics

Variable	Mean	Median	Std. Dev.	Min	Max
CR	2.07	1.63	1.47	0.51	8.64
DER	1.04	1.07	0.50	0.17	3.03
ROA	0.12	0.07	0.23	(0.10)	1.80
EPS	2034.48	106.08	10238.56	(171.47)	55576.08
PER	23.30	18.12	37.50	(29.24)	237.99
SR	0.20	0.08	0.52	(0.76)	2.67

Source: Research Data Processing Results (2019)

**Table 2:** Correlation matrix

	SR	CR	DER	EPS	PER	ROA
<i>SR</i>	1.00					
<i>CR</i>	-0.07	1.00				
<i>DER</i>	-0.14	-0.68	1.00			
<i>EPS</i>	-0.03	-0.06	0.23	1.00		
<i>PER</i>	-0.08	0.06	-0.05	-0.03	1.00	
<i>ROA</i>	0.03	0.04	0.08	0.31	0.02	1.00

Source: Research Data Processing Results (2019)

### ***Panel Regression Model Selection Test***

#### 1. Chow Test

Chow test results as shown in Table 3 below are that the value of the F test and the chi-square test were obtained at lower than  $\alpha = 5\%$ , namely the F test and the chi-square test of 0.0000. This test concludes that  $H_0$  is rejected and  $H_1$  is accepted, so the Fixed Effect model is preferred in estimating the panel data regression model rather than the Common Effect model.

**Table 3:** Chow Test

Effects Test	Statistic	d.f	Prob
Cross-section F	42.097032	(14,55)	0.0000
Cross-section Chi-square	184.569148	14	0.0000

Source: Research Data Processing Results (2019)

#### 2. Hausman Test

Hausman test results, as presented in Table 4 below, show that the probability value of the chi-square test coefficient is smaller than  $\alpha = 5\%$ , which is equal to 0,0007. The results of this test prove that H0 is rejected and H1 is accepted and that the recommended model of application is the Fixed Effect which is preferred in estimating panel data regression methods rather than the Random Effect. Based on the results of two paired model selection tests, it is evident that the model that should be used for further analysis is the Fixed Effect model.

**Table 4:** Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob
Cross-section random	21.196546	5	0.0007

Source: Research Data Processing Results (2019)

### *Data Panel Regression Estimation Analysis with Fixed Effect Model*

The fixed effects panel data regression model applied is a model that eliminates the problem of heteroscedasticity by paying attention to residual factors that can be overcome through white heteroscedasticity, while the autocorrelation problem is not necessary in the fixed effect model so that autocorrelation tests can be ignored. The estimation results of the fixed effect panel data regression model with white-heteroskedasticity are shown in Table 5 below.

**Table 5:** Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.590085	0.344544	19.12700	0.0000
CR	-0.002781	0.018361	-0.151481	0.8802
DER	-0.095199	0.019466	-4.890603	0.0000
ROA	0.122062	0.056448	2.162388	0.0350
EPS	0.065201	0.016645	3.917222	0.0002
PER	0.026246	0.014380	1.825203	0.0734
R-squared	0.9809	F-Statistic	148.4752	
Adjusted R-squared	0.9743	Prob (F-statistic)	0.0000	
Durbin-Watson stat.	1.8536			

Source: Research Data Processing Results (2019)

#### 1. Goodness of Fit Test (R<sup>2</sup>)

Testing how much the contribution of the five independent variables in the fixed effect model explains the change in SR can be measured using the coefficient of determination R<sup>2</sup> at

0.980876 which provides an explanation that the variables CR, DER, ROA, EPS, and PER can simultaneously explain variations in SR fluctuations in food companies and drinks. amounting to 98.08%, while 1.92% is a factor not considered in the research model. While the adjusted adjustment coefficient  $R^2 = 0.974270$ , which means taking into account the level of freedom from the estimated number of variables, all the financial fundamental factors used in this study very strongly explain the variations that occur in SR food and beverage companies by 97.42%.

## 2. Simultaneous Test (Test Statistic F)

Joint testing for five independent variables in the panel data regression model using the F-test obtained an F-Statistic value of 148.4753 with a probability value of 0.0000 concluding that all independent variables consisted of; CR, DER, ROA, EPS, and PER together influence SR.

## 3. Partial Test (Test Statistic t)

The test results for each independent variable its effect on RS using the t-test are shown in table 4, can be summarized as follows;

1. The CR ratio has a parameter number of -0.002781 with a prob. value of 0.8802 greater than  $\alpha = 5\%$ . The CR ratio proved not to significantly affect SR.
2. The DER ratio has a parameter number of -0.0095199 with a prob. value of 0.0000 less than  $\alpha = 5\%$ . DER ratio has a negative effect on RS.
3. ROA ratio has a parameter number of 0.122062 with prob. a value of 0.0350 is smaller than  $\alpha = 5\%$ . ROA ratio in line with the hypothesis has a direct effect on RS.
4. The EPS ratio has a parameter number of 0.065201 with a prob. value of 0.0002 less than  $\alpha = 5\%$ . EPS ratio in accordance with the research hypothesis has a positive effect on RS.
5. The PER ratio has a parameter number of 0.026246 with a prob. value of 0.0734 greater than  $\alpha = 5\%$ . The PER ratio is proven not to significantly affect SR.

## *Discussion*

### 1. The Effect of CR on SR

The results showed that the CR ratio proved to have no effect on SR in the food and beverage subsector. These results support previous research conducted by Febrioni et al., (2016), Anita (2014), Ifa (2017), Mutiara (2017), Layla and Vivi (2018) and Ihsan (2017) which show that CR does not affect SR.

### 2. The Effect of DER on SR

Empirical findings from this study revealed that the DER ratio has a negative effect on SR in the food and beverage subsector. Empirical findings support the research of Aldienal & Hakim. (2019). Saragih (2018), Puspitadewi & Rahyuda (2016), and Tan (2015) which show that DER has the opposite effect with SR.

### 3. The Effect of ROA on SR

Empirical evidence from this study finds that the ROA ratio has a direct effect on SR in the food and beverage sub-sector companies. Empirical findings support research conducted by Harahap (2018), Anwaar (2016), James (2015), Nurhakim et al., (2016), Heryanto (2016), Shkeel (2018), and Saleh (2015) which show that ROA has a direct effect on SR.

### 4. The Effect of EPS on SR

Empirical findings indicate that the EPS ratio factor has a direct effect on SR in the food and beverage sub-sector companies. Empirical evidence supports research conducted by Gunaratne & Anuradha (2016), Shkeel (2018), Tan (2015), Wijesundera et al., (2015), Gilang and Kesuma (2015), and Febrioni et al., (2016), which shows that EPS has a direct effect with SR.

### 5. The Effect of PER on SR

Empirical findings from this study are that the PER ratio factor does not significantly affect SR in the food and beverage sub-sector companies. Empirical results support research conducted by Shkeel (2018), Wijesundera et al., (2015) and Ayuba et al., (2018) which found that the PER factor is not able to explain the changes that occur in SR.

## **Conclusion**

The study was conducted to measure the effect of five financial ratios on stock returns in the Food and Beverage sector companies listed on IDX during the period 2013-2017 using a panel data regression model that provides results that not all fundamental financial factors affect the changes in stock returns. ROA and EPS variables have a direct effect on stock returns, while the DER variable has the opposite effect. The CR and PER factors do not significantly affect the stock returns of F-B sector companies listed on the Stock Exchange during the 2013-2017 period. Simultaneous testing shows that all independent variables consisting of; CR, DER, ROA, EPS, and PER, together influence SR. Empirical evidence of the research has implications for the interests of corporate management and investors. In order for company management to maximize shareholder wealth, which is the main objective, attention must be paid to the company's fundamental factors that are able to give a positive signal in raising share prices. For investors, financial fundamental factors can determine the decision to buy or sell shares.

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