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DETERMINANTS OF STOCK RETURN IN CONSUMER NON-CYLICALS' COMPANIES LISTED ON IDX

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ABSTRACT

The aims of this research was to obtain empirical evidence regarding the impact of return on equity, operating cash flow, debt-to-equity ratio, and earnings per share toward stock return in consumer non-cyclicals companies during 2018-2020 listed on Indonesia Stock Exchange. Using purposive sampling method, from 38 companies that were chosen, total sample for three years were 114 data. For data processing, Eviews 12 application is used and the technique analyzed is multiple linear regression. The result is return on equity has a positive impact toward stock return, operating cash flow has no positive impact toward stock return, earnings per share and debt-to-equity ratio have no negative impact toward stock return. The research's implication is that company need to reduce leverage and increase profitability, because it will affect investor's decision.

***Keywords:** Return on Equity, Operating Cash Flow, Debt to Equity Ratio, Earnings per Share, Stock Return*

1. INTRODUCTION

Many aspects of people's life are impacted by the information technology industry's rapid developments, including the economy of the nation. The public is beginning to engage in investment activities more and more as a result of the improved access to technology. Potential investors can benefit from this trend by earning additional revenue, and the company can utilize it as an opportunity to raise funds to support its operating activities.

Investment is a term used to describe the act of placing cash or other valuable resources to be used as capital in the expectation of future financial gain. Nowadays, stocks are one of the most popular investing platforms. The number of stock investors in Indonesia increased by 81.74% between February of 2019 and February of 2021, according to statistics from The Indonesia Central Securities Depository (KSEI). This statistic demonstrates the public's emerging interest for stock investments.

Stocks or shares are used as proof of an investor's financial or capital investment in a company. Shares of publicly traded firms can be purchased and sold on a specific capital market, the Indonesia's Stock Exchange. Investors need to do a thorough research of stock fundamentals and other market variables before opting to invest in a certain company to ensure that their investments will yield the desired return. Many new investors tend to ignore and skip these steps which resulted in a huge potential loss. The need for new investors to do research before choosing a company's stock instead of just following the market trend is clear.

Returns itself are categorized in two types, that is capital gains and dividends. Capital gains (losses) are the difference between a stock's selling price and its acquisition price as a result of market price movements. Certain factors have an impact toward the stock price fluctuations. Return on equity, operating cash flow, debt to equity ratio, and earnings per share are some of the variables considered. Positive cash flow indicates that revenues exceed expenses and shows that a business can operate effectively and efficiently. Investors view this as a positive indicator. Investors may see which company is able to make the most money from their capital and on their outstanding shares by looking at the stock return and earnings per share ratio as a measure of the company's profitability. The debt-to-equity ratio's value, however, is a measure of how successfully and skillfully the company manages its capital structure. Companies with more debt than capital are seen negatively by prospective investors, which can have an impact on the market's stock values.

This research replicates the study of Kipngetich *et al.* [1], which examines the impact of operating cash flow toward stock return. This study has several differences with previous research. First, this study uses consumer non-cyclicals sector companies which is listed on the Indonesia Stock Exchange, while the industrial sector used in Kipngetich *et al.* [1] is non-financial companies listed on the Nairobi Security Exchange. Second, the period of this research is from 2018-2020, while the research period of Kipngetich *et al.* [1] is from 2007-2019. Third, there is three additional variable from Nurmayasari *et al.* [2], which is return on equity, earnings per share, and debt-to-equity ratio. Based on the description above, it is necessary to analyze again the impact of return on equity, operating cash flow, earnings per share, and debt-to-equity ratio toward stock return. The aim of the study was to obtain empirical evidence regarding (a) the impact of operating cash flow toward stock return, (b) the impact of return on equity toward stock return, (c) the impact of earnings per share toward stock return, and (d) the impact of debt-to-equity ratio toward stock return.

2. RESEARCH METHOD

According to Jensen and Meckling [3], agency theory is based on the relationship between the company's owner or shareholder (principal) and the manager (agents) with a basis of contract between two parties. In their capacity as agents, agents are in charge of maximizing the company's returns on its assets. The agent is required by the running contract to make choices and act in the principals' best interests.

Theoretically, agents will do their jobs properly in accomplishing the company's goals, which have been established by shareholders. However, there is still a chance that agents will be more concerned with serving their own interests than those of the organization. This happens because these two parties have different goals. In circumstances like this, agents will probably make choices that could conflict with shareholder interests.
Another problem that may arise as a result of such contracts is the asymmetry in the information received by agents and principals. This assymetric flow of information occurs due to the fact that agents have firsthand knowledge of the company's daily operational actions, whereas shareholders only receive reports from the agents.

Signaling theory, in the words of Gitman and Zutter [4], is a hint or signal sent by the firm's management that acts as an indicator of management's perception of the prospect value of the company. The company's external stakeholders, particularly investors, will consider the mandate as one of its valuation bases when deciding what investments need to be made. The need for these clues occurs due to the presence of information asymmetry.
The difference in information owned by management and investors results in management needing to provide a clue through the company's financial statement information to reduce the asymmetry of existing information. Investors should utilize the data in financial statements that have been released to make proper investment decisions. The information is

viewed as a positive signal that can persuade investors and provide an overview of the company's future prospects, which can lead to a favorable market response and an increase in the stock price of the company.

According to Subramanyam [5], stock return is the equity investor's share of company earnings in the form of either earnings distribution or earnings reinvestment. According to Suciati [6], stock return is a number of benefits that investors will receive by investing in a firm, either directly or through a securities company. It can be concluded that stock return is the amount of benefit received by investors as a reward for investing in a certain company due to the fluctiation of stock price in the market. When deciding to choose a company to invest in, future investors will estimate which company can provide maximum return. The difference between the selling price and the acquisition price of shares in the market determines the stock return that investors get.

According to Kieso *et al.* [7] operating cash flow is the excess of cash receipts over cash payments from operating activities. In addition, Kipngetich *et al.* [1] stated that operating cash flow information gives a clear picture of how much cash has been generated from the company's daily business operating activities. Cash inflows calculated in the formula consist of cash obtained from customer's sales and services. Meanwhile, cash outflows from operating activites can consist of cash payments to vendors, cash payments to employees, cash required to tax obligations and interests, and others operating expenses that the company make.

Gitman and Zutter [4] stated ROE measures the return earned on the common stockholder investment in the firm. Ristyawan [8] stated that return on equity shows the effectivity of a companies' ability to generate profit from the equity they have. A high ROE indicates that the company is capable of generating profit out of its own capital. This increases the confidence of shareholders when choosing a company for them to invest.

According to Gitman and Zutter [4], earnings per share represents the number of dollars earned during the period on behalf of each outstanding share of common stock. Earnings per share can also be defined as one of the company's profitability ratios that measures the amount of net income the stockholders will receive on behalf of each outstanding share they own. Future investor uses EPS as an indicator of company's ability to generate profit for their stockholders. The greater the EPS shown, the higher investor's expectation on the company's financial capability.

According to Gitman and Zutter [4], debt-to-equity ratio represents the relative proportion of total liabilities to common stock equity used to finance the firm's assets. Debt-to-equity ratio can also be defined as one of the company's leverage ratios that measures the capital structure of a company by dividing company's liabilities by their equity. A high DER indicates that the company rely more on third party financing than their own capital. Often these are seen as a red flag for future investors because they see these as the company's incapability to manage their capital structure and increase the risk of future repayment.

Research by Kasmiati and Santosa [9] and Kipngetich *et al.* [1] shows that operating of cash flow has a positive impact toward stock return. This study'results contradict the research of Sitorus *et al.* [10] who found the results of a positive impact of operating cash flow toward stock return. In addition, it is also contra with research by Yuliarti and Diyani [11] which found that there was no negative impact of operating cash flow toward stock return.

Research by Hidajat [12], Ramlah [13], and Sitorus *et al.* [10] shows that return on equity has a positive impact toward stock return. Other researchers, Ristyawan [8] states that return on equity has a negative impact toward stock return. However, Yuliarti and Diyani [9], Yuhasril and Wahyono [14], and Nurmayasari *et al.* [2] get different results, that return on equity has no negative impact toward stock return. In addition, Nadyayani and Suarjaya [15] shows that return on equity has no positive impact toward stock return.

Setiyono and Amanah [16] and Hidajat [12] obtained research results where earnings per share has a positive impact toward stock return but on the other hand, Jasman and Kasran [17] gets different result, that earnings per share has a negative impact toward stock return. Other researchers, Bowens and Endri [18] found that there was no negative effect of earnings per share on stock return, while Nurmayasari *et al.* [2] and Pramisti and Cakranegara [19] found that earnings per share had no positive impact toward stock return.

Besides Kasmiati and Santosa [9], Pramisti and Cakranegara [19] found a negative impact debt-to-equity toward stock return. Different results were found by Setiyono and Amanah [16], Bowens and Endri [18], Suciati [6], and Ramlah [13] that shows debt-to-equity ratio has a positive impact toward stock return. However, Kusmayadi *et al.* [20] failed to find a negative impact of firm size on leverage. These results are not in line with research by Nurmayasari *et al.* [2] which found that debt-to-equity ratio had no positive impact toward stock return.

According to Kipngetich et al. (2021), as well as Kasmiati and Santosa (2019), operating cash flow has a positive effect on stock returns. This is because the positive and high level of operating cash flow indicates that the companies can manage its operational activities effectively and efficiently, so that it may reduce its operational costs and carry out its operations without the need for funds from outside parties (creditors). In accordance with the signalling theory, having positive cash flow sends out a strong positive signal and boosts investor trust in a company's capabilities, which will eventually be reflected in the company's positive stock return level.

Operating cash flow describes the company's ability to manage its operational activities effectively and efficiently as measured by the company's ability to cover all operating costs owned by its sales revenue. The higher the operating cash flow generated, the more capable the company is able to run operations and generate profits for shareholders. This profit acts as a motivating factor for investors to invest, which raises the stock price and boosts stock returns from one period to the next. Based on the description above, then the formulation for hypothesis is:
Ha1: Operating cash flow impact positively toward stock return.

According to Ramlah (2021), Sitorus et al. (2021), and Hidajat (2018), return on equity has a positive effect on stock returns. This is due to the fact that a company's potential to make a profit off of its capital is generally indicated by a higher return on equity. The company's stock price and the amount of stock return generated will rise as a result of this positive catalyst.

The indicator of a company's ability to generate profit from its total capital is return on equity. Based on the signalling and agency theory, investor interest in investing in a firm will increase as the return on equity ratio shown in the company's financial statement increases since the company is perceived as producing the desired profit. This positive signal as a result

of the high financial ratio and investor enthusiasm may cause the company's stock price and stock return to rise. Based on the description above, then the formulation for hypothesis is:
Ha2: Return on equity impact positively toward stock return.

According to Setiyono and Amanah (2016) and Hidajat (2018), earnings per share has a positive impact toward stock returns. This is because there is evidence that the profit that investors will receive on each shares they hold will likewise increase the greater the earnings per share created. This indication is encouraging for investors to purchase stock in the company, which will raise the stock price and stock return.

The profit shareholders receive for each share they hold is referred to as earnings per share. The higher the earnings per share, the proportion of profit obtained by investors on each share will increase. Investors will highly interested in investing in the company as a result of the large profit made. Due to this, the stock price will rise and the stock return will rise as a result of a market reaction. This is due to the signalling thory, where the investors will perceived this news as a positive signal that will boost their interest to invest in the company. Based on the description above, then the formulation for hypothesis is:
Ha3: Earnings per share impact positively toward stock return.

Pramisti and Cakranegara (2021), as well as Kasmiati and Santosa (2019) stated that the debt-to-equity ratio negatively affects stock returns. This is due to the high debt to equity ratio indicating that the company relies more on funding from third parties than its own capital for its operational financing. Due to the large obligation that must be paid throughout the following few years, the substantial debt will be negative for the business. This is an issue for investors to think about before they decide against the company, which would result in lower stock returns.

Debt-to-equity ratio describes the proportion of a company's total debt to its total equity as a capital structure used for operational funding sources. The company's debt levels and interest expense increase along with the debt-to-equity ratio, which also lowers the company's ability to pay back those related loans. Investors will not choose to participate in the company because of its large total debt, which serves as a warning sign to them. According to the signalling theory, this represents as a negative signal or a red flag which will lowers the company's stock return by causing the price of its stock to fall. Based on the description above, then the formulation for hypothesis is:
Ha4: Debt-to-equity ratio impact negatively toward stock return.

Based on description above, the model research is:

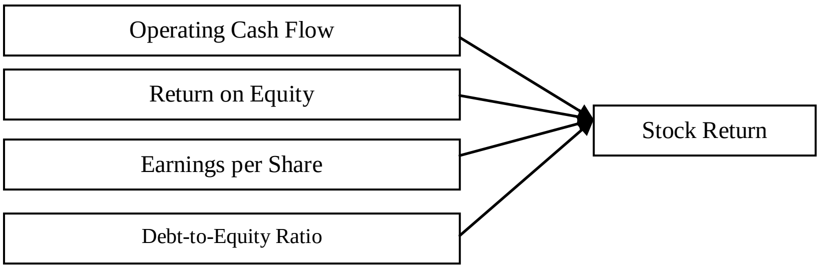

Figure 1. Research Model

This study uses a population of all consumer non-cyclicals companies that are consistently during 2018-2020 listed on the Indonesia Stock Exchange. The purposive sampling was used in selecting the sample. For selecting the sample, the criteria used are: (a) The company's financial reports ended on December 31, and (b) The company does not experience loss from 2018-2020. A sample of 38 companies was obtained based on these criteria. 114 data were obtained with a research period of three years.

The data is collected from the financial statements of each consumer non-cyclicals company consistently listed during 2018-2020 on the Indonesia Stock Exchange. EVIEWS 12.0 is used for the processing data.

Dependent variable in this research is stock return. The independent variables in this research are return on equity, operating cash flow, debt-to-equity ratio, and earnings per share. Hartono [21] states stock return which is given the symbol SR is measured using the formula:

$$SR = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

Hartono [21] states operating cash flow which is given the OCF symbol is measured using the formula:

$$OCF = \frac{\text{OCF } \textit{from period } \text{t} - \text{OCF } \textit{from period } t_{-1}}{\text{OCF } \textit{from period } t_{-1}}$$

Gitman and Zutter [4] states return on equity which is given the symbol ROE is measured using the formula:

$$ROE = \frac{\textit{Earnings available for common stockholders}}{\textit{Common stock equity}}$$

Gitman and Zutter [4] states earnings per share is given the EPS symbol is measured using the formula:

$$EPS = \frac{\textit{Earnings available for common stockholders}}{\textit{Numbers of shared of common stock outstanding}}$$

Gitman and Zutter [4] states debt-to-equity ratio is given the DER symbol is measured using the formula:

$$DER = \frac{\textit{Total liabilities}}{\textit{Common stock equity}}$$

3. RESULT AND DISCUSSION

Based on the criteria explained, a sample of 38 companies was obtained. From 2018-2020, then 114 data were obtained. Statistic descriptive for each variable can be look from Table 1.

Table 1. Descriptive Statistics

	Minimum	**Maximum**	***Mean***	***Standard Deviation***
SR	-0.825000	2.214286	0.080533	0.460873
OCF	-5.129182	53.56437	1.531523	6.275634
ROE	0.000924	1.450882	0.176533	0.241815
EPS	1.230000	5655.000	301.7097	750.8528
DER	0.130145	4.227895	1.104699	0.973931

Stock return has a maximum value of 2.214286 and minimum value of -0.825000. The mean value of stock return is 0.080533 and a standard deviation is 0.460873. The value of the mean value of stock return is lesser than the standard deviation. It means that the spread of stock return data is large. Operating cash flow has a maximum value of 53.56437 and a minimum value of -5.129182. The mean value of operating cash flow is 1.531523 and a standard deviation is 6.275634. The standard deviation value of operational cash flow is greater than the mean value. It concluded that the distribution of operational cash flow data is large. Return on equity has a maximum value of 1.450882 and a minimum value of 0.000924. The mean value of return on equity is 0.176533 and a standard deviation of 0.241815. The value of the standard deviation of return on equity exceeds the mean value. It concluded that the spread of return on equity data is large. Earnings per share has a maximum value of 5655.000 and a minimum value of 1.23000. The mean value of earnings per share is 301.7097 and a standard deviation is 750.8528. The standard deviation value of earnings per share exceeds the mean value. It concluded that there is a large spread of earnings per share data. Debt-to-equity ratio has a maximum value of 4.22789 and a minimum value of 0.130145. Debt-to-equity ratio has a mean value of 1.104699 and a standard deviation is 0.973931. The mean value of debt-to-equity ratio exceeds the standard deviation value. It concluded that the spread of debt-to-equity ratio data is small.

The Chow test results can be look from Table 2 below:

Table 2. The Result of Chow Test

Effect Test	**Prob.**
Cross-section F	0.0000

The results of the Chow test show that the probability value of F is 0.000. This value lower than 0.05, so the model chosen is the fixed effect model.

The Hausman test results can be look from Table 3 below:

Table 3. The Result of Hausman Test

Test summary	**Prob.**
Cross-section random	0,0000

The probability value (Prob.) of cross-section random from the results of the Hausman test is 0.0000. This value is lower than 0.05, so the model chosen is the fixed effect model.

The fixed effect model test results can be look from Table 4 below:

Table 4. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.015967	0.219930	0.072598	0.9423
OCF	0.005232	0.006887	0.759690	0.4499
ROE	3.006537	0.520381	5.777570	0.0000
EPS	-0.000174	0.000207	-0.838451	0.4046
DER	-0.381774	0.191157	-1.997180	0.0496

Adjusted R-Squared

Test results of Adjusted R-squared can be look from Table 5:

Table 5. Result of Adjusted R-squared

Variable	Adjusted R-squared
SR	0.318897

The value shown from the results of the Adjusted R-squared test is 0.318897. This concludes that 31.8897% of the stock return variation can be explained by operating cash flow, return on equity, earnings per share, and debt-to-equity ratio. The remaining 68.12% is influenced by other factors not included in this research model.

Hypothesis Test Result

The hypothesis testing result can be look from Table 6:

Table 6. The Result of Hypothesis Test

	Coefficient	***p-value***	**Description**
OCF ➔ SR	0.005232	0.4499	Ha_1 not accepted
ROE ➔ SR	3.006537	0.0000	Ha_2 accepted
EPS ➔ SR	-0.000174	0.4046	Ha_3 not accepted
DER ➔ SR	-0.381774	0.0496	Ha_4 accepted

The regression coefficient of operating cash flow on stock return is positive at 0.005232. The p-value is 0.4499 exceeds 0.05, it concludes that operating cash flow does not impact positively toward stock return. Thus, Ha1 is not accepted.

The regression coefficient of return on equity on stock return is positive at 3.006537. The p-value is 0.0000 lesser than 0.05, it concludes that return on equity impact positively toward stock return. Thus, Ha2 is accepted.

The regression coefficient of earnings per share on stock return is negative at 0.000174. The p-value is 0.4046. exceeds 0.05, it concludes that earnings per share have no negative impact toward stock return. Thus, Ha3 is not accepted.

The regression coefficient of debt-to-equity ratio on stock return is negative at 0.381774. The p-value is 0.0496 lesser than 0.05, it concludes that debt-to-equity ratio impact negatively toward stock return. Thus, Ha4 is accepted.

Cash flow operation has no positive impact toward stock return. The results of this study are consistent with the research of Sitorus *et al.* [10], but not consistent with the research of Kasmiati and Santosa [9] and Kipngetich *et al.* [1] which resulted in operating cash flow having a positive impact toward stock return. The results of this study are also inconsistent with research by Yuliarti and Diyani [11] which state that operating cash flow does not have a negative impact toward stock return. In addition, Dharmasetya and Sudirgo [22] stated that operating cash flow has a negative impact toward stock return.

The results of this study indicate that operating cash flow does not impact positively toward stock return. The phenomenon in the research sample demonstrates that the rise in stock returns is more consistent with the movement of the firm's positive financial profitability ratio, where the figure indicates that the company is experiencing profit. The majority of investors place a greater priority on profit than on cash flow. Profit is assessed using an accrual accounting base, not on a cash basis. The operating cash flow calculation also accounts for financing expenses that do not directly affect the company's capacity to make money for its investors, like taxes and interest on productive debt. Therefore, operational cash flow has no effect on stock return.

Return on equity impact positively toward stock return. The results of this study are consistent with the researches of Ramlah [13], Sitorus *et al.* [10], and Hidajat [12] but not consistent with the research of Ristyawan [8] which states that return on equity have a negative impact toward stock return. The results of this study are also inconsistent with researches of Yuliarti and Diyani [11], Yuhasril and Wahyono [14], and Nurmayasari *et al.* [2] which found that return on equity does not have a negative impact toward stock return. This finding is also inconsistent with the research of Nadyayani and Suarjaya [15] which state that return on equity does not have a positive impact toward stock return.

Return on equity shows the ability of a company to generate profits from the equity they have. As one of profitability ratio, return on equity is important to measure the company's capabilities in managing daily business activies and it reflects the company's prospects.

According to the test results, there is a positive correlation between the two variables, so that as the return on equity rises, so do the company's stock returns. This result is in accordance with the signalling and agency theory. One of the profitability ratios of the firm that is highly helpful for investors to choose which company they want to invest in is return on equity. The company's stock price will rise as a result of investors' enthusiasm for picking the best stock options to invest in. A strong return on equity value also suggests that the business can effectively and efficiently turn the cash raised from the shareholders into profits. These elements contribute to a growth in both the stock return received by investors and the share price of a company over time.

Earnings per share does not have a negative impact toward stock return. The results of this study are consistent with the research of Bowens and Endri [18], but not consistent with research by Jasman and Kasran [17] who stated that earnings per share had a negative impact toward stock return. This research is also inconsistent with the research of Nurmayasari *et al.* [2] and Pramisti and Cakranegara [19] which states that earnings per share does not have a positive impact toward stock return. The results of this study are also contrary to Setiyono and Amanah [16] and Hidajat [12] who found that earnings per share did not have a positive impact toward stock return.

The results of this study indicate that earnings per share does not have a negative effect on stock return. This could be due to investors frequently use earnings per share to evaluate the potential dividend yields that businesses can offer. In reality, not all businesses pay dividends on a consistent basis throughout each period, and in this study, dividends are not taken into consideration when calculating the stock return percentage. Other than that, the number of the company's outstanding shares can also impact the company's EPS. If the EPS rises due to the declining number of the company's outstanding shares, while the profit generated remain the same, this is not an issue for investors. Cases like this causes investors to look more closely at other aspects relating to the company's profit when considering whether to make an investment and less at earnings per share as a signal to buy a stock. Therefore, earnings per share does not have a negative impact toward stock return.

Debt-to-equity ratio impact negatively toward stock return. The results of this study are consistent with the research of Kasmiati and Santosa [9] and Pramisti and Cakranegara [19], but not consistent with research by Setiyono and Amanah [16], Bowens and Endri [18], Suciati [6], and Ramlah [13] who stated that debt-to-equity ratio had a positive impact toward stock return. This research is also inconsistent with the research of Kusmayadi *et al.* [20] which states that debt-to-equity ratio does not have a negative impact toward stock return. The results of this study are also contrary to Nurmayasari *et al.* [2] who found that debt-to-equity ratio did not impact positively toward stock return.

The results of this study indicate that debt-to equity ratio impact negatively on stock return. This phenomenon is based on the fact that a high debt to equity ratio is perceived negatively. A high debt to equity ratio shows that debt from third parties, rather than the company's own capital, makes up a larger amount of a company's capital structure. The majority of investors see this as a bad thing since there are signs that the company won't be able to maintain its current level of debt, and high levels of debt also negatively affect cash flow and operational efficiency. Investors view the high level of debt as a warning sign since it indicates that the business lacks sufficient resources to fund its activities. Large amounts of debt also entail high interest rates. Therefore, debt-to-equity ratio have a negative effect on stock return and is in accordance with the signalling theory.

4. CONCLUSION AND SUGGESTIONS

The purpose of this study was to obtain empirical evidence regarding the positive impact operating cash flow toward stock return, the positive impact of return on equity toward stock return, the positive impact of earnings per share toward stock return, and the negative imapct of debt-to-equity toward stock return. The results of this study indicate that operating cash flow operation does not have a positive impact toward stock retrun, return on equity have a positive impact toward stock return, earnings per share does not have a negative impact toward stock return, and debt-to-equity ratio have a negative impact toward stock return.

This study has the limitation, which is data covers only three years. For next research, it is better to add other independent variables, such as sales growth, firm size, and market share. Also may be use longer research period.

This research has the implication, which is to help company's management to make better financial decisions, specially to reduce leverage and increase profitability. It because both aspects will affect the investors decision and the going concern of the company. For future investors, it can help them analyze companies' financial reports before deciding to invest in one of the companies listed in the market.

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