



## Profitability To Stock Returns

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### Abstract

The current growth of the capital market is accompanied by the growth of the stock market which continues to be in demand by investors as well, as can be seen from the information on the IDX which shows that stocks that are included in sharia are facing an increase. An investor wants to carry out analysis to make investment decisions. This analysis is technical in nature as well as fundamental. One of the fundamental analysis is the analysis of profitability ratios issued by the industry. Good monetary performance are going to be information that's used as a positive signal by investors, as a result of industries that have sensible financial performance can offer a lot of edges for investors. the aim of this analysis is to look at and analyze the profit variables of stock returns on the IDX for the 2016-2020 period. The population of this research is an industry listed on the IDX. This research uses illustration criteria, we get illustrations from 40 industries listed on the IDX for the 2016-2020 period and publish information on annual financial reports on the IDX that are needed throughout the research. The variables employed in this analysis are EPS, ROE, ROA, dimensions as management variables, and stock returns as the dependent variable. The results of this research show that investors in the Indonesia Stock Exchange (IDX) view the profitability ratio as a signal for making investment decisions. Variable dimensions may be used as management variables used in this analysis. Profitability ratios taken by investors are ROA, EPS. So it must be a special attention for industries.

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## INTRODUCTION

The increase in financial efficiency in something in the country is one of them through the inclusion of capital markets (Aryanti, 2016). The location of capital markets both investors and industries or issuers is very facilitated by the system, an industry going public can share financial information and others made in publish so that investors can easily find good financial data or others to sort out investments. The rapid growth of the capital market is accompanied by the Islamic stock market which is believed to be one of the pillars of the strength of the Indonesian capital market industry (Soemitra Andri, 2014). The number of Sharia issuers who grow share many opportunities for investors to invest in Sharia stocks, because it is seen by most citizens in Indonesia are Muslim (Aryanti, 2016).

Indonesia stock exchange is one of the indexes that group 40 manufacturing stocks that are filled with criteria. The purpose of making the Indonesia Impact Exchange is to increase investor confidence to carry out investments in Manufacturing-based stocks and share the efficacy for financiers in carrying out financing to carry out investments in the stock exchange.

An investor wants to be interested in investing in a public go industry that has a good financial condition. The good financial situation in the industry indicates that the company is able to distribute good returns to shareholders.

An industry requires the inclusion of investment investment from investors to raise the stock price, because it fits the law of demand if it continues to be a large demand until it wants to continue to increase the price offered. Continues to increase the stock price, then the increasing the return that can be received by investors. Some things can affect the return of the stock, ranging from technical analysis, fundamentals and others. One of the fundamental aspects that can affect is the profitability ratio that is considered by fundamental analysis on stock demand.

Fundamental value is also not separated from the evaluation of stocks in Indonesia. So that the evaluation of financial performance must also

be observed in companies that are members of Shariah stocks.

In the annual financial statement information published by the industry listed in the IDX appears the value of profitability ratios such as EPS, ROE, ROA faced fluctuations throughout 2016-2020. The return of shares on shares listed on the Indonesia Exchange Effect (IDX) also faces fluctuating. The increase and depreciation of eps, ROE and ROA values are not in line with the increase and depreciation of the value of stock returns. Research by Sikarwar Ekta and Vijay Kumar Gupta (2016) shows that EPS, ROE, and ROA have a significant positive influence. The research was tried with the stock population on the stock market in India. Different points are shown in the results of research tried by Nathaniel Nicky (2008), I Dimitrios Maditinos, Eljko S, et al (2009) and MadhaviE & MSV Prasad (2015), the presence of EPS, ROE, ROA, affects positively insignificantly on stock returns. Research shows that the rise and fall of the profitability ratio does not affect the rise and fall of the value of stock returns.

After looking at the research that was previously tried that was used as a reference showing the existence of a comparison of results or there is a research gap, and considers the existence of the phenomenon of the gap between the value of EPS, ROE, ROA with the return of shares on stocks listed in the IDX, until the matter becomes the background of research on the influence of EPS, ROE, ROA to stock return.

Signalling theory describes that an industry with good financial quality wants to planned to share announcements over the financial condition of the industry. The announcement of the financial situation of the industry is expected to respond and be able to distinguish which industries have good quality and which industries have poor quality. The signals given by the industry are expected to be utilized by the market well and well contested, so that it can be imitated by industries that have poor quality (Megginson, 1987).

Components in signalling theory that are the key elements are signal, signaling theory and signal receiver. Signallers here are insiders,

executive management where they get data about individuals, organizations, or products that outsiders are unaware of. Insiders who get positive or negative data, about it is actually information that is very useful for insiders listed up to the number and specifically about products and services override early sales reports, or data about other aspects of the organization such as a negotiation and others. Very simple things in the announcement of data, such as data probadi that helps insiders in building assumptions about the quality of an investment (Taj, A saud, 2016).

Investors or market actors must be final in interpreting and analyzing the information issued by the company further. Investors must be able to distinguish between "lemon" and "orange", meaning they can distinguish data as signals that are cheap and those that are not cheap (Jogiyanto, 2005). Investors who react want to interpret more deeply the signals or data received in order to make the right decision in the investment. So that in making decisions and implementing responses to stock requests can be tried appropriately.

Profitability is a procedure of measuring the ratio to measure the amount of profit generated in the industry( Maditinos I Dimitros, Zeljko Sevic, etc. ( 2009 ). Profitability ratio can consist of some of the ratios in it, such as EPS, ROE, ROA etc. Profitability ratios are often used in financial statements to analyze the fundamentals of an industry. Profitability ratio is very meaningful as one of the industry management data to investors or industrial shareholders. Profitability can share a description of how the financial situation of the industry in a certain period of time. Brigham EF, Gapenski LC, Ehrhardt, (1999) reported that profitability is the embodiment of policy outcomes and managerial decisions adrift with legacy management and industrial debt. So what is generated in profitability is the application of all policies and decisions tried on the industry in controlling the industry's finances.

In carrying out the company's finances are required if all payments issued from planning to sales must be smaller than from industry revenue, so that the industry can be categorized as a profitable industry (Monica Violeta, Sorin Nicole, 2011). Various forms of ratios formed to show the

financial condition of the industry profit or not make it easier for investors to take into account the financial situation of an industry. For example, in the earnings per share (EPS) ratio, this ratio shows how much the industry can distribute earnings on each share invested.

So that investors can look directly as a matter of consideration of fundamental procedures in accounting for a stock. One of the other profitability ratios is return on equity (ROE) which can share data with investors or shareholders how much an industry can share its own return on capital.

Component means in accounting for an investment or assessing financial performance is a return on shares. Stock return describes the amount of return from shares that are late selected by investors. The return value of shares is obtained from changes in stock prices that are always changing or fluctuating. Stock return reflects market strength, which means the price of a stock depends on the strength of supply and demand. So that the state of the stock offering market is more, and less demand that wants to be established is the depreciation of the stock price.

But the opposite is entwined if the condition of the stock offering is less than the agreement until what is to be established is the increase in the stock price. This stock demand is triggered by some internal aspects of the industry as well as external aspects of the industry. So that all data so that signals related to the state of the industry is a matter that is meaningful for investors.

Ekta and Vijay Kumar Gupta (2016) show that the measurement of financial performance can be seen from the value of earnings per share (EPS) which illustrates how much an industry can distribute earnings on each share. The existence of large earnings per share (EPS) information illustrates an industry that can share large earnings to investors. For signalling theory if there is data on the value of earnings per share (EPS) that increases into a positive signal for investors to invest their funds. The increase in earnings that is used as a signal by the industry makes investors interested in investing in the industry so as to give

rise in stock prices that can share large returns. The initial hypothesis in this study is as follows:

H1= Earnings per Share (EPS) positively affect stock returns.

Data on the evaluation of financial performance one of which contains the number of return on equity (ROE), where ROE is data on how much the company is able to generate a return on its own share capital owned by the industry. Research tried by Ismail Ishan (2013) and Dimitrios Maditinos, Eljko S, et navy (AL) (2009) shows that the increase in ROE will have a positive and significant influence on the return of industrial stocks. Data ROE issued by industry or issuers is used as a positive signal so that demand for industrial stocks increases, and makes the return of shares in the industry also face an increase. The second hypothesis in this study is as follows: H2 = ROE positively affects stock returns.

ROA shows how much the industry can create returns on its legacy. Data related to finance can be used as a signal for investors. This signal may lead to a positive or negative response to the market. Sikawar and Gupta (2016) conducted research that showed that the increase in the value of ROA affects positively and significantly on stock returns. Signals received by investors on industry financial performance data are responded to and analyzed so as to give rise to market response so as to give rise to a comparison of stock returns. So that the hypothesis in this research is as follows:

H3= Return on Asset (ROA) positively affects stock returns

Table 1. Company Sample Data

Company Code	Company Name
AALI	Astra-Agro-Lestari-Tbk
ADRO	Adaro-Energi-Tbk
ASII	Astra-International-Tbk
BMTR	Gobal-Mediacom
CPIN	Charoen-Pokphand-Indonesia-Tbk
ICBP	Indofood-CBP-Sukses-Makmur-Tbk
INCO	Vale-Indonesia-Tbk
INDF	Indofood-Sukses-Makmur-Tbk
INTP	Indocement-Tunggal-Raya-Megah-Tbk
ITMG	Indo-Tambang-Raya-Megah
KLBF	Kalbe-Farma-Tbk
LSIP	PP-London-Sumatera-Indonesia-Tbk
MNCN	Media-Nusantara-Citra-Tbk
MPPA	Matahari-Putra-Prima-Tbk
PGAS	Perusahaan-Gas-Negara-(Persero)-Tbk
PTBA	Tambang-Batu-Bara-Bukit-Asam-(Persero)-Tbk
SMGR	Semen-Indonesia-(Persero)-Tbk
TLKM	Telekomunikasi-Indonesia-(Persero)-Tbk
UNTR	United-Tractors-Tbk
UNVR	Uniliver-Indonesia-Tbk

RESEARCH METHODS

The type of data used is secondary information obtained from annual financial statements on the IDX in industries included in the Jakarta Islamic Inde in this research:

1. Industries included in the Indonesia Impact Exchange in a row throughout 2016-2020,
  2. Industries that deliver annual financial statements regularly and have aspects of information needed in research.
- Sourced from the illustration criteria used, the following illustration information used in the processing of industrial research information listed

Table 2. Definition and Measurement of Variables		
Variable	Definition	Measurement Formula
Stock Return	A stock's return is an earned return by shareholders who have invested in a company	$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$
Earning per Share (EPS)	Earnings earned from per share of the company (White et al., 2003; Williams et al., 2003)	$EPS = \frac{\text{Profit after tax}}{\text{Number of Shares of the Company}}$
Return on Equity (ROE)	Return On Equity (ROE) is viewed as a product of profit margin (net income divided by sales) and equity turnover (penjualan dibagi dengan ekuitas pemegang saham) (Sharp, et al, 2006)	$ROE = \frac{\text{Profit after tax}}{\text{Capital itself}}$
Return on Asset (ROA)	Return on Asset (ROA) is the Which measures the company's ability to generate profits atau laba pada tingkat pendapatan, dan asetand interest tertentu. (Sikarwar E Gupta, 2016)	$ROA = \frac{\text{Earnings before taxes}}{\text{Amount of assets}}$
Size	The size or size of the company is the number of assets owned by the company.	Natural logarithms of assets

on the IDX for the period 2016-2020. Regression analysis aims to look at the influence of independent variables on dependent variables with industrial dimensions as control variables:

$$Y = \alpha + \beta_2 \text{EPS} + \beta_3 \text{ROE} + \beta_4 \text{ROA} + \beta_5 \text{Size} +$$

Regression tried in this research is using determinant coefficient test, t test and f test. The f test is used to view the effect of independent variables on dependent variables simultaneously with size as a control variable.

**RESULT AND DISCUSSION**

Here are the statistical results of the coefficient of determination, as well as the f test on EPS, ROE, ROA and size to stock returns.

The test test t in the influence of earnings per share (EPS) return on equity (ROE), return on

asset (ROA) and size on stock returns shows the following statistical results:

The size variable in the regression result shows that the size affects a significant positive to the return of the stock, so it can be used for

control variables. Statistical regression results on the t test show that EPS, ROA have a positive and significant influence on stock returns. The significance value on the EPS variable is 0.00 with a regression coefficient value of 0.358. ROA variables that display results if there is a positive and significant influence on the return of shares with a significance value of 0.00 and a regression coefficient value of 0.467. Statistical results also show the variable ROE has a positive effect on stock returns but not significant, judging from the significance value of 0.863 and regression coefficients display a value of 0.21.

**Table 3.** Coefficient of Determination and Test F

Adjuster R Square	Probability
0.988	0.00

**Table 4.** Hypothesis Testing Result

	Coefficient	Probability
constant	0.620	0.00
EPS	0.358	0.00**
ROE	0.021	0.863
ROA	0.467	0.00**
SIZE	0.320	0.00

Keterangan: \*\* sig < 0.1

**Discussion**

Investors on the IDX make decisions in investing. The increase in return on assets (ROA) is represented to increase returns for investors, so that the value of ROA becomes a certain attention for investors in carrying out investments. The amount of return on asset (ROA) shows that an industry can control relics in such a way as to obtain industrial profits.

The second ratio favored by investors used as a consideration for investing decisions is the earnings per share (EPS) ratio. The value of earnings per share (EPS) is seen to illustrate how the industry can distribute earnings on each company's shares. The increase in the value of earnings per share (EPS) will be a positive signal for investors in investing decisions. The value of earnings per share (EPS) clearly shows that an

investor wants to get the amount of earnings in each share of his investment. So this matter becomes one of the focus of attention in considering the shares to be taken.

The value of return on equity (ROE) displays a positive but insignificant effect on the return of the stock. Investors do not really look at the value of return on equity (ROE) to take into account a stock listed on the IDX. This is possible because investors see that there is a return on equity.

(ROE) does not guarantee profit sourced on its equity. The value of return on equity (ROE) that increases depends on certain industry dimensions only, so more analysis is needed to ensure investment.

## CONCLUSION

The purpose of this research is to analyze the result of profit to return ratio of shares on the IDX for the amount 2016-2020. The results of research sourced in statistical processing show that the profitability ratio that can affect the return of shares on stocks listed in the IDX for the period 2016-2020 is earnings per share (EPS), return on asset (ROA) and variable size or industrial dimensions can be used as industry control in the effect of profitability on stock returns. With the results of this research, it is expected that the industry can share more attention on the ratios that investors focus on in accounting for a stock. So that there is a value of profitability ratios that increase into energy attract investors to invest their funds in manufacturing stocks listed in the IDX.

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