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Financial Performance: Is it Managerial Capability That Investors Respond to?

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Article info

Abstract

This study aims to analyze the influence of Current Ratio, Return on Equity, Debt Equity Ratio, Net Profit Margin, and Earning per Share to Stock Return on stock return in food and beverage industry listed in the Indonesian Stock Exchange. The population in this study were all which amounted to 54 companies. The sampling technique used was purposive sampling. The number of samples of 10 companies with period 2016-2019. The data analysis technique used is multiple linear regression with event study approach. The results explain Current Ratio and Net Profit Margin after the publication of financial reports had no effect on stock returns. Meanwhile, the Return on Equity in windows 7 and 11 is negative and significant to stock returns. However, ROE on window 15 has no effect on stock returns. Debt Equity Ratio on 7 windows has a positive and significant effect on stock returns, however, the 11 and 15 windows have no effect on stock returns, and Earning per Share has a positive and significant effect on stock returns.

Keywords:
Current ratio, Debt equity ratio, Earning per share, Net profit margin, Return on equity; and Stock return

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1. Introduction

The capital market is a very attractive place for investors, because it promises very high returns. Investors are also faced with high risks. An investor's investment portfolio is important in an effort to obtain optimal returns. The ability of investors to analyze will be able to reduce investment risk. Rapid changes in the business environment have an impact on increasing investment risk (Pahlevi & Oktaviani, 2018; Haryanto et al., 2019; Shaddady, 2022; and Yin et al., 2022). The ability of investors to make predictions to see trends that will occur can reduce investment risk. The ability to analyze and make decisions can get the return that will be obtained. The Indonesian capital market is an emerging market that is very attractive to investors, both domestic and foreign investors.

The capital market in Indonesia is a developing capital market. The Indonesian capital market continues to experience significant development, although it fluctuates. The number of companies that go public continues to experience significant growth. Likewise, investors and funds rotating in the Indonesian capital market continue to experience significant development.

The company has a goal of maximizing company value or increasing the prosperity of shareholders. (Nohuz et al., 2014; Haryanto, 2014; Lilia et al., 2019; Budiman & Krisnawati, 2021; and Charita et al., 2021). Financial performance is a signal given by management to investors regarding company performance. Increasing company performance is a positive signal for investors (Wohlgemuth et al., 2016; Tarmidi et al., 2019; Setiawanta & Hakim, 2019; Jemunu et al., 2020; and Tarmidi, 2021).

Stock price fluctuations often occur following changes in the business environment at the time (Machmuddah et al., 2020; Huynh & Xia, 2021; and Chowdhury et al., 2022). Investors need good and accurate information as a consideration for making investments (Firman, 2014; Setiawan et al., 2018; Parveen et al., 2020; and Raut, 2020). Ratio analysis is one of the fundamental analysis techniques based on the pattern of stock price behavior determined by changes in the behavioral variations of the basic variables of company performance. In summary, it can be said that the share price is determined by the company's value by analyzing the company's financial statements.

On the other hand, event study can be used to investigate the information content of each event. If an announcement contains information, it is expected that the market will react when the announcement is received by the market. (Haryanto, 2011; Titin, 2012; Chavali et al., 2020; and Pandey & Kumari, 2021). Specifically, event studies investigate how quickly the market responds to the information content of an announcement or event publication. Information content can include good news or bad news. Events that are the focus of research are usually categorized into several types, including those most often found in event studies, namely conventional events, cluster events, unexpected events, and events that occur are relevant and sequential (Tandelilin, 2010).

The publication of the issuer's financial statements, especially the balance sheet and income statement is information awaited by investors on the stock exchange (Shanti, 2012; Rahadi & Rahmi, 2018; and Ubert & Handayani, 2021). This is because with the information in the financial statements, investors can find out information on the development of issuers which will be useful as a consideration in investing in securities on the stock exchange.

The research findings show that company fundamentals (book value per share, net incom) have a positive effect on stock prices (Sari & Matusin, 2019). Profitability (ROA) and DER affect investor expectations (Ananda, 2018). Results of research conducted Anah et al. (2018), and Adrisa et al. (2021) shows that CR, DER, EPS have no effect on stock prices. While research (Sukmawardini & Ardiansari, 2018) shows CR and DER have a negative effect on firm value.

According to Rahman, (2013) to assess the financial performance of a company is mostly measured using financial ratios during one company period. This is because using this ratio analysis can provide a better view of the company's financial performance, and the medium for assessing the company's financial performance is the financial statements.

This study aims to analyze the effect of Current Ratio (CR), Return on Equity (ROE), Debt Equity Ratio (DER), Net Profit Margin (NPM), and Earning per Share (EPS) on stock returns after financial reports are published.

2. Hypothesis Development

Current Ratio (CR) shows the extent to which current assets can be used to cover short-term liabilities or current debt. The greater the ratio of current assets to current debt, the higher the company's ability to cover short-term liabilities. A high Current Ratio indicates that the company is able to meet short-term obligations or debts using current assets, so that shareholders have confidence in the ability of companies that have a high Current Ratio level. Research conducted by (Batubara & Nadia, 2018) that CR has an effect on stock prices.

H_1 : There is no effect of Current Ratio (CR) on stock returns at

Return on Equity (ROE) is a ratio used to measure the company's ability to generate net income based on certain capital. ROE shows the company's ability to earn profits from the capital owned. The higher the ROE, the higher the company's ability to book profits from the capital owned. A company with a higher ROE indicates the company's prospects are getting better. A higher ROE is a positive signal for investors. The level of ROE has a positive relationship with the stock price, so the greater the ROE the greater the market price, because the amount of ROE indicates that the return that investors will receive will be high so that investors will be interested in buying these shares, and that causes the stock market price to tend to increase. Research conducted by Andansari et al. (2016); Juwita & Diana (2020); Adrisa et al. (2021); Arshad (2021); and Sholichah et al. (2021) that ROE has a positive effect on stock returns.

H_2: Return on Equity (ROE) affects stock returns in food and beverage companies.

Debt to Equity Ratio is a ratio that describes the ratio of debt and equity in corporate funding and shows the ability of the company's own capital to fulfill all its obligations. Debt is one of the important sources of funds to support company growth. Companies with high growth opportunities in the future will require substantial funds. Management has carefully calculated when using funding sources from debt. Management has confidence that it will be able to generate a large return from the debt taken. Investors believe that with large debt at this time, the company has great opportunities in the future. Research conducted by Muhammad et al. (2020); and Harmono et al. (2023) DER has a positive effect on stock prices.

H_3: Debt Equity Ratio affects stock returns in food and beverage companies.

Net Profit Margin (NPM) is the ability of a company to generate net profit from its sales (Sutrisno, 2009; Hassan & Adam, 2014; Santosa & Puspitasari, 2019; and Nariswari & Nugraha, 2020). NPM can be calculated by dividing net profit after tax by net sales revenue. Research conducted Putra et al. (2016) and Rahmi et al. (2018) stated that Net Profit Margin (NPM) has a positive and significant effect on stock returns.

H_4: Net Profit Margin (NPM) affects stock returns in food and beverage companies.

Earning per Share (EPS) is the company's ability to provide a return on each share distributed. Meanwhile, according to Fakhuruddin (2001), Earnings per share is a ratio that shows the amount of profit (retrun) generated by the company for each share. EPS is a very important reference to the performance of a company, because this will show how much money the company gets from its shareholders. Research conducted Fitriani et al. (2015), Asri et al. (2018) and Rahmi et al. (2018) states that Earning per Share (EPS) has a positive effect on stock returns.

H_5: Earning per Share (EPS) affects stock returns in food and beverage companies.

3. Data dan Methods

This study uses a quantitative method with a causal associative type of research, where this study aims to determine the effect and analyze the causal relationship between the independent variable (variable that affects) and the dependent variable (variable that is affected). This study examines the effect of Current Ratio (CR), Return on Equity (ROE), Debt Equity Ratio (DER), Net Profit Margin (NPM), and Earning per Share (EPS) on stock returns. The research period is 4 years, namely 2016-2019. The sampling technique used is purposive sampling. The population in this study amounted to 54 companies. Manufacturing companies belonging to the food and beverage company sub-sector, totaling 28 companies. The number of samples is 10 companies. The data source used is data taken through internet access to www.idx.co.id. The data used in this study is quarterly data, namely from 2016-2019. As for the stock return data, it is obtained from the stock price per day with a window of 7, 11, and 15 days, which is taken through the finance.yahoo.com

The data analysis technique used in this research is multiple liner regression analysis:

$$Y = \alpha + \beta_1 X_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Note: Y= stock return, α= constant, β= regression coefficient of independent variables, X_1= Current Ratio (CR), X_2= Return on Equity (ROE), X_3= Debt Equity Ratio (DER), X_4= Net Profit Margin (NPM), X_5= Earning per share (EPS), e= Residual error (Error).

4. Results

Before testing the data, an outlier test is first carried out on the stock return variable data. Outlier data is data that has a much different value compared to the overall data. One way to detect outlier data is by looking at the Box Plot. After that, delete the outlier data detected on the Box Plot. The data becomes 142 (160-18), after the outlier data is removed.

Based on the results of the data description analysis Table 1 shows the average Current Ratio of 228.580. This shows that the average current ratio of companies in the food and beverage industry is quite liquid. The average ROE amount is 15.893. This shows the company's ability to generate profits of 15.893% of its equity. The greater the ROE, the better the company's performance.

Table 1 Data Description

Varb.	Min.	Max.	Averg.	Std. Dev.
CR	50.030	883.690	228.580	198.204
ROE	-14.990	130.420	15.893	26.271
DER	0.160	4.350	1.0697	0.694
NPM	-23.980	42.780	10.849	13.592
EPS	-28.500	661.090	153.784	158.733
$Return_7$	-0.058	0.050	-0.002	0.013
$Return_{11}$	-0.025	0.024	-0.0002	0.006
$Return_{15}$	-0.029	0.031	-0.0001	0.006

Debt Equity Ratio (DER) shows the amount of company debt compared to company equity.

DER in this study has a minimum value of 0.16 and a maximum with an average of 1.070. This shows that the average company debt is 107% of the company's equity. Minimum Net Profit Margin (NPM) of -23.980, maximum of 42.780 and average of 10.849. This shows that the average company's ability to generate profits from its sales is 10.849. The greater the NPM, the better the company's ability. Earning Per share (EPS) is a minimum of -28.50 and a maximum of 661.09 with an average of 153.784. The higher the EPS, the better the company's performance.

The average stock returns for 7, 11 and 15 days of open windows are 0.013, 0.006 and 0.006 respectively. The average stock return in the three event windows period shows a positive return. The highest return occurred in the 7-day period. This shows that the market response

Table 2. Result

	Event Windows 7			Event Windows 11			Event Windows 15		
Variable	Coefficients	t	Sig.	Coefficients	t	Sig.	Coefficients	t	Sig.
CR	-0.033	-0.235	0.815	-0.102	-0.727	0.469	0.017	0.127	0.899
ROE	-0.515	-2.825	0.005	-0.457	-2.495	0.014	-0.243	-1.350	0.179
DER	0.351	2.378	0.019	0.174	1.198	0.233	0.112	0.783	0.435
NPM	0.301	1.862	0.065	0.150	0.932	0.353	-0.140	-0.897	0.371
EPS	0.380	3.181	0.002	0.432	3.520	0.001	0.496	4.111	0.000
R^2			0.096			0.096			0.126
R^2_{adj}			0.063			0.062			0.094
F_{count}			2.887			2.877			3.937
F_{Prob}			0.017			0.017			0.002

Based on data analysis in (Table 2) Window 7 shows that the adjusted R square coefficient value is 0.063, this means that the current ratio, return on equity, debt equity ratio, net profit margin, and earning per share variables are able to explain stock returns by 6.3%. While the rest (100% - 6.3%= 93.7%) is explained by other factors. While in (Table 2) Window 11 shows that the adjusted R square coefficient value is 0.062, this means that the current ratio, return on equity, debt equity ratio, net profit margin, and earning per share variables are able to explain stock returns by 6.2%. While the rest (100% - 6.2% = 93.8%) is explained by other factors. Based on (Table 2) Window 15 shows that the adjusted R square coefficient value is 0.094, this means that the current ratio, return on equity, debt equity ratio, net profit margin, and earning per share variables are able to explain stock returns by 9.4%. While the rest (100% - 9.4% = 90.6%) is explained by other factors.

5. Discussion

Effect of Current Ratio (CR) on Stock Return

The analysis results show that the Current Ratio has no effect on stock returns, both in windows 7, 11 and 15. This shows that the company's current ratio has no impact on investment decisions, which is indicated by changes in stock prices. Changes in stock prices reflect stock returns. Investors assume that the company's current ratio is relatively safe, this is indicated by the average curret ratio of 228.580. So that investors consider the company capable of paying its short-term obligations. So that the continuity of the company will be guaranteed. With an average current ratio of 228.580, it shows that the company is neither unliquid nor overliquid.

The results of this study are in line with his research Anah et al. (2018), Situmeang et al. (2019), Supriantikasari et al. (2019), and Adrisa et al. (2021) where the current ratio has no effect on stock returns. Finding of this research does not support research Sukmawardini & Ardiansari (2018) and Batubara & Nadia (2018) where the current ratio affects stock returns.

Effect of Return On Equity (ROE) on Stock Returns

The analysis results show that ROE has an effect on stock returns in 7 and 11 windows with a negative direction. While in the 15 Window ROE has no effect on stock returns. ROE illustrates the extent to which the company's ability to generate profits available to shareholders. The results showed that in the 7th and 11th windows ROE had no effect on stock returns. This can happen even though the company booked a profit so that the ROE is positive, but investors see not only the ROE but how the ROE growth is. This condition, although ROE is influential, is responded negatively by investors. The negative effect of ROE on return may be different when the return window is shorter, say 3 or 5 days. This is because most investors in the Indonesian Capital Market are short-term investors. The findings of this study are not in line with the results of research conducted by Andansari et al. (2016); Juwita & Diana (2020); Adrisa et al. (2021); Arshad (2021); and Sholichah et al. (2021) which found that ROE has a positive effect on stock returns.

While in window 15 which shows that ROE has no effect on stock returns, this can occur because information about the announcement of the financial statements is no longer considered meaningful to investors. The longer the information, the less meaningful the information is to an investor.

Effect of Debt Equity Ratio (DER) on Stock Returns

The analysis results show that DER has a positive effect on stock returns in 7 windows. This shows that the amount of DER is responded positively by investors. Investors believe that companies with high DER, which indicates high corporate debt, have the opportunity to grow in the future. Investors have confidence that the company will be able to repay the debt. Debt is a source of company funds. An increase in debt indicates that the company needs additional funds to develop its business. The results of this study indicate that DER is a positive signal for investors. Investors believe that the company's debt is still within tolerable limits.

The results of this study are in line with the research findings Rahmawati (2017), Kirana et al. (2020), Muhammad et al. (2020); and Harmono et al., 2023) which states that DER has a positive and significant effect on stock returns.

Meanwhile, Window 11 and 15 show that DER has no effect on stock returns. This indicates that the DER information is no longer considered mea-ningful for investors in making investment decisions. The longer the information enters the market, the information is no longer an important conside-ration for investors.

The research findings in window 11 and 15 where DER has no effect on stock returns are in line with the research Situmeang et al. (2019), Fitriani et al. (2015), and Supriantikasari et al. (2019). Where the research findings show DER has no influence on stock returns

The Effect of Net Profit Margin (NPM) on Stock Returns

The analysis results show that NPM has no effect on stock returns, both in the 7, 11 and 15 windows. The findings of this study indicate that information related to the company's ability to earn profits from each sale does not attract investors to consider making decisions in making investments. Investors will be more inclined to look at profitability or how sales growth is. How much the sale becomes a profit, for investors it is enough to see how much profit the company earns.

This condition is in line with the results of research conducted by Lestari (2012) and Handayani et al. (2019) which states that NPM has no effect on stock returns. However, the findings of this study are not in line with research findings Putra et al. (2016) and Rahmi et al. (2018) .

The Effect of Earning Per Share (EPS) on Stock Returns

The analysis results show that EPS has a positive effect on stock returns, both in windows 7, 11 and 15 with a positive direction. The results of this study indicate that higher EPS is a positive signal for investors about the company's future prospects. EPS shows the amount of income that may be obtained by shareholders from the price of shares that have been purchased. The higher EPS indicates that the income that may be obtained by investors is greater than the sacrifices made by investors. In addition, higher EPS conditions allow investors to get higher income from company dividends. Dividends are part of the profit distributed to shareholders. So when EPS is high, which indicates that the company's profit is high, the potential for obtaining dividends will be higher.

EPS has a significant effect on stock returns, this proves that with an increase in the profits that have been obtained per share, it will affect the level of stock returns of investors. Earnings per share is a figure that is often used in publications regarding the company's performance that has been achieved for companies that sell their shares to the public. This is due to the assumption that earnings per share contain important information to make predictions regarding the amount of dividends per share in the future, and to assess the effectiveness of management that has been implemented by the company.

This condition is in line with the results of research conducted by Fitriani et al. (2015), Asri et al. (2018) and Rahmi et al. (2018) which states that EPS has a positive and significant effect on stock returns.

6. Conclusions and suggestions

Conclusion

Based on the results of the analysis, it shows that Current Ratio (CR) and Net Profit Margin (NPM) in all windows determined after the publication of financial statements have no effect on stock returns. Return On Equity (ROE) after the publication of financial statements in 7 and 11 windows affects stock returns. But in the 15 window ROE has no effect on stock returns. Debt Equity Ratio (DER) after the publication of financial statements in the 7 window has a positive effect on stock returns. But at 11 and 15 windows have no effect on stock returns. While Earning Per Share (EPS) in all windows determined after the publication of financial statements has a positive effect on stock returns in food and beverage industry companies listed on the Indonesian stock exchange in 2016-2019.

Suggestion

This research was conducted limited to the Food and beverage industry, with a period of 4 years. The variables used are also limited, namely only current ratio, return on equity, debt equity ratio, net profit margin, and earning per share. In addition, this study only looks at the effect of financial performance from the date after the financial statements are published, namely at the 7, 11, and 15 windows that have been determined. For further research, it can be done by increasing the research period and can add other supporting variables, such as price earning ratio, return on assets and other instruments that are thought to be sensitive to an event, so as to provide more accurate results. Investors are advised not to make financial reports the only main guideline for investment decisions, so that investors can make more informed decisions regarding their investments.

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