# The Effect of Der on Stock Return in Manufacturing Companies of Consumption Industrial Goods Sector

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***Abstract---****This study aims to determine the effect of (DER) on Stock Returns. This research is motivated by several manufacturing companies in the consumer goods industry sector showing fluctuating stock returns during the 2013-2017 period. Stock return is a profit in the form of a rate of return on a security owned by an investor. DER is a ratio that measures debt held by a company with shareholders' equity The population of this study is a consumer goods manufacturing sector listed on the Indonesia Stock Exchange in the period 2013-2017, which is 51 companies. The sampling technique used in this study was the purposive random sampling method. There were 27 samples of manufacturing companies in the consumer goods industry sector listed on the IDX that had met certain that had been adjusted. The types of data in this study are quantitative data in the financial statements during the period 2013-2017 obtained from the Indonesia Stock Exchange and IDN Financials sites. The results showed that the (DER) did not affect stock returns.*

***Keywords---****Debt to Equity Ratio, Stock Return*

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## I. BACKGROUND

Investors invest capital in companies listed on the IDX, one of the sectors that investors are very interested in investing in is manufacturing companies. A manufacturing company is an industrial company that processes raw materials into semi-finished goods or finished goods. In addition, manufacturing companies are identical to factories that use machinery, equipment, engineering and labor. List of manufacturing companies, including, basic and chemical industries, various industries and consumer goods industries. The return of consumer goods industry shares can still be an option because the consumer goods sector still has better prospects compared to other sectors (**Soedjatmiko, Hilmi, & Ahmad, 2018**).

**Yona (2015)** said that every year the population of Indonesia as one of the developing countries in the world continued to experience growth. This growth has various impacts on aspects of human life. One aspect that is quite affected by the increase in population is the use of consumer goods. The number of middle class people continues to grow, the increase in the middle class can cause shifts in the type of public consumption from primary needs (food and clothing) to secondary and even tertiary (luxury) needs **(Nufransa, 2018).**

The population growth should be able to increase stock returns in the consumer goods industry sector, because the increasing number of population, the need for consumer goods will also increase. Based on data from IDX it is known that the return of shares in the consumer goods industry sector in the period 2013-2017 has experienced significant fluctuations.

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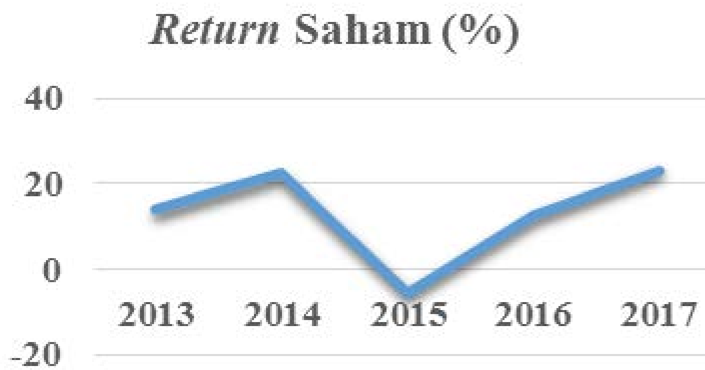


**Figure 1.1:**

**Source:** Financial Report (data processed)

Chart of Stock Returns of the Consumer Goods Industry Sector 2013-2017 period

Based on the data above, in 2013-2014 stock returns in the consumer goods industry sector experienced an increase of around 8.4%, then in 2014-2015 the return of shares had a very drastic decline of minus 5.19% but in 2015-2017 stock returns have increased again, this is due to selling pressure by foreign investors **(Hari, 2018).**

Stock returns that go up and down are influenced by many factors, the first factor that influences a stock's return is the company's internal factors which mean factors that affect stock returns within the company itself such as the quality and reputation of management, capital structure, corporate debt structure, and others **( Fitri, 2017; Saudi, 2018))**. Internal factors that influence the rise and fall of stock returns are financial ratios. Financial ratios obtained by connecting elements of financial statements **(Sutrisno, 2012)**. Broadly speaking, the ratio is divided into 6 (six), namely profitability ratios, solvency ratios (leverage), liquidity ratios, activity ratios, growth ratios and market value ratios. In this study, researchers will take profitability ratios, solvency ratios (leverage), and market value ratios **(Kasmir, 2015).**

Leverage ratio is a ratio that measures how many companies use funds from debt (loans) (Placeholder7) Proportional leverage ratio using (DER). DER describes the company's ability to pay or fulfill its obligations by using its own capital. The greater the DER value indicates that the greater the capital structure derived from debt used to fund existing equity. If the DER of the company is high, there is a possibility that the company's stock price will be low because if the company makes a profit, the company tends to use the profit to pay its debt compared to dividing the dividend **(Suherman & Anwar, 2013)**. While small DER shows that the better the financial performance of the company **(Warren et al, 2005)**.

Based on the phenomena and previous research described earlier, the researcher is interested in conducting further research on (DER) and Stock Return on manufacturing companies in the consumer goods industry sector 2013-2017 period.

## II. LITERATURE REVIEW

### II.I. Stock Returns

Return is the rate of return obtained from investment. Stock return is the result or profit that can be obtained by the shareholders for a number of shares they have **(Jogiyanto, 2013)**. Stock returns are determined according to supply-demand law or bargaining power. The more people who want to buy, then the stock price tends to move well. Conversely, the more people who want to sell shares, the shares will move down **(Rusdin, 2008).**

Stock returns can be divided into two types of returns, namely return realization and expected return. Return realization is important because it is used as one measure of the performance of the company. This return realization is also useful as a basis for determining future return expectations and risks. Expectation return is a return expected by investors in the future. Unlike the realization return that has already occurred, the expected return of its nature has not occurred **(Jogiyanto, 2013).**

### II.II. Research Variable

#### II.II.1. DER

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**Martono & D. Agus (2007)** defines DER as follows: "The ratio of total debt to own capital is the ratio of total debt owned by the company to its own capital (equity)." Whereas according to **Ridwan, Inge** and **Dharma (2007)**, DER is "Comparison between long-term debt with company share capital."

If the company's DER is high, there is a possibility that the company's stock price will be low because if the company earns a profit, the company tends to use the profit to pay its debt compared to dividing the dividend **(Suherman & Anwar, 2013)**. Meanwhile, if the low DER assumes the company is in a healthy condition and investors will invest in the company **(Soedjatmiko, Abdullah, & Taufik, 2018).**

II.III. Framework

II.III.I.The effect of DER on Stock Returns

DER is the total debt ratio that compares the total debt with total equity. This ratio explains the proportion of the sources of long-term funding of company assets **(Bambang, 2008)**.

Companies that have high financial risk tend to be avoided by prospective investors because the return value is low **(Bambang, 2008).** The higher the DER will cause an increase in the value of debt which will cause a decrease in net income that in turn will reduce the profits received by shareholders **(RM Gian, 2011).** This is reinforced by **Ken and Isnurhadi's (2013)** research which states that DER does not affect stock returns.

The lower the DER level, the better the company's ability to pay for long-term debt. This shows that with low DER results it is assumed that the company is in a healthy condition and investors will invest in the company **(Darsono, 2005)**.

II.IV. Hypothesis

Based on the above framework can be made several hypotheses, then in this study set a guess or hypothesis that is as follows (**Hussain et al., 2019**):

$H_0$: DER doesnt affect Share Returns in manufacturing companies in the consumer goods industry sector for the period 2013-2017.

Ha: DER has an effect on Share Return on manufacturing companies in the consumer goods industry sector for the period 2013-2017.

## III. METHOD OF RESEARCH AND OBJECT

III.I. Outcome Object

**Sugiyono (2014)** revealed that the object of research was as "The object of research is a scientific goal to obtain data with the purpose and usefulness of something objective, valid, and reliable about something (certain variables)." While **Moh Nazir (2010)** revealed that the object of research was as "Objects have characteristics or traits. If we measure an object, what is actually measured is not the object but an indicator of the characteristics and properties of the object. An indicator is a term that shows something else. "

Through the explanation above, it can be concluded that the object of research used is the company's financial performance with attributes or characteristics, namely leverag2e ratio represented by DER and its effect on share returns.

III.II. Research Methods

Researchers used descriptive research methods, namely collecting data related to this research, namely leverage ratio (DER) and stock return in the Goods Industry Industry Manufacturing Company Consumption listed on the IDX for the period 2013-2017. The verification method used to examine more deeply the effect of debt to equity ratio on stock returns, and test the theory by testing a hypothesis whether it is accepted or rejected.

III.III. Types of Research

The research objective was to test the research hypothesis, namely price earnings ratio, debt to equity ratio and return on equity to stock returns in the manufacture of consumer goods sector listed in the IDX for the 2013-2017 period.

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III.IV. Research Population and Samples

III.IV.I. Population and Sample

**Nuryaman & Veronica (Nur15)** explain that the population is "The population is the total collection of elements from the collection to be concluded." The population in this study is a consumer goods manufacturing sector company listed on the IDX, totaling 51 companies. The companies reselected according to the established criteria and obtained a sample of 27 companies.

III.V. Unit of Analysis

Unit analysis refers to the level of data collection collected during the next data analysis stage **(Sekaran, 2014)**. The unit of analysis in the study is the F/S of manufacturing companies in the consumer goods industry sector listed on the IDX for the period 2013-2017.

III.VI. Types and Data Sources

The data used are secondary data in the form of F/S of manufacturing companies in the consumer goods industry sector listed on the IDX for the period 2013-2017, which is obtained from the IDX website www.idx.co.id, IDN Financials, www.sahamok.com and other sources related to research.

## IV. RESEARCH RESULTS AND DISCUSSION

IV.I. Research Outcome

IV.I.I.Descriptive Statistics Analysis

The results of descriptive statistics are as follows:

**Tabel 1:** *Descriptive Statistics*

| **Descriptive Statistics** | | | | | |
|---|---|---|---|---|---|
| | **N** | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** |
| Return | 135 | -0.99 | 26.8571 | 0.253547 | 2.3610117 |
| DER | 135 | 0.0403 | 5.2015 | 0.922858 | 0.7633432 |
| Valid N (listwise) | 135 | | | | |

Based on table 1, explained that the stock return variable shows an average value of 0.25357. The maximum value of stock returns is 26.8571, while the minimum value of stock returns is -0.9900. The Debt to Equity Ratio variable shows an average value of 0.922858. The maximum value of DER is 5.2015, while the minimum value of DER to is 0.0403.

IV.II. Model Regresion Data Panel

**Tabel 2:** *Model Regresion linear*

| **Coefficients[a]** | | | | | | |
|---|---|---|---|---|---|---|
| **Model** | | **Unstandardized Coefficients** | | **Standardized Coefficients** | **t** | **Sig.** |
| | | **B** | **Std. Error** | **Beta** | | |
| 1 | (Constant) | 0.104 | 0.32 | | 0.323 | 0.747 |
| | DER | 0.163 | 0.268 | 0.053 | 0.607 | 0.545 |
| a. *Dependent Variable: return* | | | | | | |

Based on the results of panel data testing, the estimated linear regression model in this study uses the commmon effect method. So the regression model formed is as follows.

$Y = \alpha + \beta X$

Return Saham = 0,104 + 0,163DER

IV.III. Hypothesis Testing Results

This test aims to show the extent of the influence of independent variables in explaining the dependent variable.

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**Tabel 3:** *LinearRegression Analysis*

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| **Model** | | Sum of Squares | Df | Mean Square | F | Sig. |
| **1** | Regression | 2.063 | 1 | 2.063 | 0.368 | .545[b] |
| | Residual | 744.904 | 133 | 5.601 | | |
| | Total | 746.966 | 134 | | | |
| a. Dependent Variable: return | | | | | | |
| b. Predictors: (Constant), DER | | | | | | |

Based on the results of the t test in the regression model, the significance value of the DER variable is 0.545> 0.05 (the level of significance of the significance of the study). Based on the results of the test, it concluded that successfully rejected H_0, meaning the variable debt to equity ratio does not affect stock returns.

IV.IV. Discussion

Based on the results of the above research shows that Stock Returns cannot be explained by DER. And also the results of the t test on the variable DER, it shows that the DER variable does not affect Stock Returns in the consumer goods manufacturing sector listed in the Indonesia Stock Exchange in the period 2013-2107. According to the theory, the higher the DER indicates the greater the total debt to total equity (Robert, 1997). The absence of DER influence on stock returns indicates that the market, especially investors, do not use DER calculations in making investment decisions. Investors may prefer to use other things that are more important to investors, such as market ratios in making investment decisions. The results of this study are the same as the research conducted by **Ken** and **Isnurhadi (2013)** and **Giovanni (2013).**

## V. CONCLUSIONS AND SUGGESTIONS

V.I.Conclusion

On the average, the debt to equity ratio has increased during the period 2013-2017. The test results show that the (DER) doesnt affect Stock Returns on Manufacturing Companies in the Consumer Goods Industry Sector listed on the Indonesia Stock Exchange for the period 2013-2017.

V.II.**Suggestion**

For Researchers Next to examine further related to stock returns in order to know the market behavior represented by stock return movements. The next researcher can use the same ratio or by adding another ratio. Especially market ratios that might be the main concern of investors in decision making.

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