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Effect of Profitability on Stock Returns of Companies in the Food and Beverage Sector in Indonesia

[1]Yogo Heru Prayitno, [2]Suryana, [3]Tria Apriliana, [4]Acep Edison

Abstract---*The study aims to determine the effect of profitability with the variable Return on Equity on stock returns in food and beverage sector companies in Indonesia. The study was conducted using 18 companies as a sample using financial reports on manufacturing sub-food and beverage consumer goods. The research method used was purposive judgment sampling using multiple linear regression. The results of the study state that profitability using return on equity affects stock returns.*

Keywords---*Return on Equity, Stock Return.*

I. INTRODUCTION

Investment according to the Indonesian Institute of Accountants in PSAK No. 13 is an asset used by the company for accrual of wealth through the distribution of investment returns (such as: interest, royalties, dividends and rent), for appreciation of the value of investments or for other benefits for companies that invest as benefits obtained through relationships trading. Shares, according to Hermuningsih (2012: 78) are one of the traded securities in the ownership capital market. Shares are evidence of a person or entity participating in the company, base on Jogiyanto (2010: 143) stock prices are prices that occur in the stock market at specific times determined by market participants and are determined by the demand and supply of the shares concerned in the capital market.

The capital market, base on Tandelilin (2010: 26), is parties who trade in securities which generally have more than one year of age. The Managing Director of the Indonesia Stock Exchange (IDX) assessed that Indonesia's economic growth throughout 2018 could continue to increase. However, also being reminded of the value of the Rupiah continues to weaken can have an impact on many things. The weakening of the rupiah exchange rate is vulnerable to affect the performance of several companies. Depreciation of the rupiah has the potential to affect the company both in terms of production due to the purchase of raw materials which are increasingly expensive and impact on the increase in selling prices, as well as in terms of liabilities or corporate debt in the form of dollars (Ekarina, 2018).

The business sectors in Indonesia experienced a negative impact due to the weakening of the rupiah exchange rate against the US dollar. However, the food and beverage consumer goods sector continues to experience constant economic growth from year to year. This is because the products produced are secondary needs of the community so that the community's dependence on the sustainability of the company is high and is expected to affect ethical stock values (Kemala, 2017).

Return on Equity is a ratio to measure and that is embedded in equity. This ratio is calculated by dividing net income into equity. The higher return on equity means, the higher the amount of net income generated from each rupiah fund embedded in equity. Conversely, the lower the return on equity means the lower the amount of net income generated from each rupiah fund embedded in equity (Hery, 2017: 194). That is, that the higher the ROE, the

[1]***Widyatama University***
[2]***Widyatama University***
[3]***Widyatama University***
[4]***Widyatama University***
Yogo.heru@widyatama.ac.id

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stock price increases. Based on the research background that has been presented, the research will be carried out with the title "The Effect of Return on Equity on Stock Prices (A Case Study of Consumer Goods Manufacturing Companies in the Food and Beverage Sub-Sector Registered on the Indonesia Stock Exchange for the 2016-2017 Period)".

II. LITERATURE REVIEW

II.I. Signaling Theory

Signal theory is a concept where the information giver can choose what and how the information will be displayed, and the recipient of the information can choose how to interpret the information received (Khairudin and Wandita, 2017: 70). Signaling Theory, according to Suwardjono (2005) is information signals needed by investors to consider and determine whether investors will invest their shares or not in the company concerned. Where information about changes in stock prices and volumes contains information in providing useful evidence and can be used in decision making (Hussain et al., 2019).

II.II. Financial Ratio Analysis

Ratio analysis, according to Sjahrial (2009: 37), is a method of calculating and interpreting financial ratios to assess the performance and status of a company. Analysis of financial statements according to Hery (2017: 113) is a process to dissect financial statements into its elements and examine each of these elements to obtain a good understanding and understanding of the financial statements themselves.

Profit ratio is a ratio used to measure the effectiveness of a company in gaining profits. This ratio, according to Hery (2017: 143), can be divided into two types, namely the Ratio of Returns on Investment and the Performance Ratio of Operations. The ratio of the rate of return on investment is the ratio used to assess financial compensation for the use of assets or equity against net income (profit after interest and tax), this ratio consists of:

a. Returns on Assets
b. Return on Equity

The operating performance ratio is the ratio used to evaluate profit margins from operating activities (sales). This ratio consists of:

a. Gross Profit Margin
b. Operating Profit Margin
c. Net Profit Margin

II.III. Effect of Return on Equity Ratio on Stock Prices

A profitability ratio is a ratio to assess a company's ability to seek profits. This ratio also gives a measure of the effectiveness of a company's management. This is indicated by profits generated from sales and investment income (Kasmir, 2009: 117). Based on signaling theory, ROE numbers can provide signals to investors, namely signal good news. The higher ROE indicates that the company can produce maximum reciprocity with minimal capital/equity (Saudi, 2018). Besides, the ROE figure also describes the success and level of management efficiency in processing owned capital. If ROE is higher, investors will react to the good news because investors will be interested in investing their assets in companies that have excellent capital processing performance and have substantial profits. Whereas based on stakeholder theory, investors want a large income figure from the shares they buy and a large income to obtain consistent results from the company because the manager gives the full financial performance to the company. So, the higher the ROE value generated will lead to an increase in the company's stock price. Conversely, the lower the ROE generated will result in a decrease in the company's stock price in question (Khairudin & Wandita, 2017: 72).

III. METHODOLOGY

Secondary data is a source of research data obtained by researchers indirectly, through intermediary media. Secondary data is generally in the form of evidence, records, historical reports that have been compiled in published archives (Supriyono, 2018: 48). The secondary data taken in the annual financial report in this study are data obtained from internet sites, namely www.idx.co.id, www.sahamok.com, and the Central Statistics Agency (BPS). The population is 18 companies base on the Indonesia Stock Exchange 2015-2017. The criteria sampled in the study are:

1. Manufacturing of consumer goods.
2. The company includes successive and complete financial statements from 2016-2017.

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3. The company did not experience listing or delisting during the observation period.

IV. RESULTS AND DISCUSSION

IV.I.Descriptive Statistics Analysis

The results of Return On Equity data sourced from the Financial Reports on the Indonesia Stock Exchange and Summary of the Indonesia Stock Exchange which has been processed in accordance with the Operationalization of Variables as follows.

Table 1 Descriptive Statistics

	N	Min	Max	Mean	Std Deviation
ROE	28	-.131	1.000	.19282	.275844
Stock Return	28	-.9461	2.5714	.145010	.6485155
Valid N (listwise)	28				

The descriptive statistics test shows that the Return on Equity variable with a value of 0.19282 with a standard deviation of 0.275844 means that it tends to be lower during the study period while the stock return with an average value of 0.145010 with a standard deviation of 0.6485155 indicates that the higher the change value of a stock high stock returns generated.

IV.II. Analysis of Multiple LinearRegression

To predict the variable ROE (X) on Stock Return, when increased or lowered, the authors have used this analysis. From processing data that has been done using IBM SPSS Statistics Version 25.

Table 2. Equations of Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.203	.152		1.338	.192
ROE	-.303	.457	.129	-.663	.513
a. Dependent Variable: Return					

IV.III. Hypothesis Testing

Determination Coefficient Analysis

The influence of Return On Equity (X) contributes to the effect of Stock Return (Y). Using IBM SPSS Statistics Version 20 obtained the following output.

Table 3 Simultaneous Determination Coefficients

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.129[a]	.017	-.021	.6553
Predictor: (constant), ROE				

Based on the table above, information is obtained that R-Square is 0.17 or 17%. This value shows that Return On Equity (X1) contributes or influences Stock Return (Y) with R-Square value of (0.17).

IV.IV. Testing the Partial Hypothesis (Test t) Return on Equity (X) on Stock Return (Y)

Testing the hypothesis (t-test) to find out whether Return On Equity (X) has a significant or reverse effect on Stock Return (Y)

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Table 4 Testing of Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.203	.152		1.338	.192
	ROE	-.303	.457	-.129	-.663	.513

a. Dependent Variable: Return

Then the results obtained from the comparison of significance levels are H0 accepted because sig 0.513> α 0.05. This means that Return On Equity (X) does not have a significant effect on Stock Return (Y).

V. DISCUSSION

V.I. Effect of Return on Equity (ROE) on Stock Prices

The results of the partial test (t-test) prove that the ROE variable is not one of the important indicators for investors in analyzing the company's stock returns and is not one of the important indicators in analyzing the company's stock returns. it shows the management's success in maximizing the return on shareholders, the higher the ROE, the better because it provides a greater return to shareholders. Information on increasing ROE cannot be used as a signal that will provide positive input for investors in making stock buying decisions.

VI. CONCLUSIONS

Result, ROE does not affect stock returns. This means that it is not a signal for investors to get a stock return. Investors can use other information to make decisions regarding investment considerations.

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