Effect of Return on Equity and Debt to Equity Ratio to Stock Return

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Abstract

This study aims to see the effect of Return on Equity (ROE) and Debt to Equity Ratio (DER) on Stock Return. Research type in quantitative research. The research method used is the multiple linear regression method. The documents used are financial reports from 2009 to 2018 which are listed on the Indonesia Stock Exchange. The results of the partial test research (t test) show that there is a positive and significant influence between the Return on Equity (ROE) of Stock Return. Then the results of the Partial Test (t test) show that there is a negative and insignificant influence between the Debt-to-Equity Ratio (DER) on Stock Returns, Furthermore, the results of the research simultaneously (Test f) show that there is no significant influence between Return On Equity (ROE) and Debt-to-Equity Ratio (DER) on Stock Return.

Keywords: *Return on Equity; Debt to Equity Ratio; Stock Return*

JEL Classification: G21

Introduction

The establishment of the company must have clear objectives to seek profit by obtaining maximum profit so that the continuity of the company can be maintained. The purpose of looking for profit requires each company to be able to carry out certain strategies and certain policies so that they remain competitive and keep abreast of the increasingly rapid times. In addition, profit by obtaining maximum profit is done to achieve the company's goals both in the long and short term. There are several things that state the purpose of the establishment of a company. The first objective is to achieve maximum profit. The second goal is to make the company owners or shareholders prosper. The third objective of the company is to maximize the value of the company at its share price. These three goals are actually not substantially different, only achieving the goals that each company wants to achieve is different.

In the 2018 period, as many as 73 finance companies (multi) were awarded the "2019 Infobank Multifinance Awards" by Infobank Magazine with "Excellent" performance during 2018, based on the results of ratings of 176 multi-finance companies in Indonesia conducted by the Infobank Research Bureau (BIRI). The assessment is carried out on multi-finance performance based on financial reports for 2017 and 2018 (audited). PT BFI Finance Indonesia Tbk is included in the category of "Multifinance with Assets of IDR 10 trillion and Above" with the 2nd rank.

The following is a list of multi-finance companies with assets of IDR 10 trillion and above:

Tabel 1. Multifinance Beraset Rp10 Triliun ke Atas

NO	Perusahaan
1	Clipan Finance Indonesia
2	BFI Finance Indonesia
3	Summit Oto Finance
4	Adira Dinamika Multi Finance
5	Astra Sedaya Finance
6	Bussan Auto Finance

NO	Perusahaan
7	Federal International Finance
8	Mitra Pinasthika Mustika Finance
9	Oto Multiartha
10	Mandiri Tunas Finance
11	Central Java Power
12	Indomobil Finance Indonesia
13	Toyota Astra Financial Services

Source: www.infobanknews.com

Stepping into the final quarter of 2019, PT BFI Finance Indonesia Tbk has proven its achievements again by winning an award in the "Indonesia Multifinance Company Of the Year 2019". BFI Finance was listed as one of the winners in two categories, namely "Outstanding Financial Performance for Multifinance Companies With Assets between 10-20T" and "Top 5 Consumer Choice for Car Multifinance". The award was received by Sigit Hendra Gunawan, Enterprice Risk Director (Independent) of BFI Finance at the Kartini Hall, Jakarta (4/10).

The "Indonesia Meltifinance Company of the Year 2019" award is intended to appreciate the performance of finance companies that managed to record positive finances during the year 208. Its parameters include, among others, asset growth, capital ratios, profitability, and liquidity. In addition, BFI Finance is also rated as the favorite finance company based on community assessments.

The brilliant performance of PT BFI Financce Indonesia Tbk achieved another achievement in "Top 20 Financial Institutions 2019". Appreciation from The Finance, a digital magazine from Infobank Group, by Sudjono, Finance Director, BFI Finance received this award for the category "The Best Performing Multifinance 2019 Based on Financial Performance 2017-2019 Category of Assets over IDR 10 Trillion". The awarding of this

award is the company's success in the midst of an economy that is still experiencing global economic uncertainty, because the economic pace is predicted to slow down, the government is optimistic about setting a growth target of 5.3% in 2020.

This award rating measures the performance of each financial institution from the four financial industry sectors, namely banking, life insurance, general insurance, and multi. The main raw material for measurement is the financial statements of the last three years or three periods which are then filtered based on the size of the company.

In the 2020 period, PT BFI Finance Indonesia Tbk managed to maintain its achievements in the "9th Infobank Digital Awards 2020", an award from Infobank and Isentia magazines, a Media Intelligence & data technology company from Australia. BFI Finance managed to occupy the highest position in the category "Asset Financing Company Rp. 15 trillion to under Rp. 20 trillion. The company also received third place in the "Best Overall Financing Company" category. The assessment is based on the results of a survey conducted by Isentia in collaboration with the Infobank Research Bureau during 2019. The survey was conducted using the Social Media Monitoring & Isentia Brandtology method to determine the Digital Brand Index of Corporations and surveyed products.

The company value is the selling value of the company, the excess selling value of the company is the value of the organization that runs a company. one of the ways used to value companies is the fundamental approach. Generally, the fundamental approach is outside the capital market, the things that are included in fundamental analysis are economic and industrial analysis, the assessment of companies individually using research variables such as dividends and income. Fundamental analysis, there are five financial ratios that can reflect the financial condition and performance of a company, namely the ratio of liquidity, solvency, profitability, activity and market ratios. These financial ratios are used to explain the strengths and weaknesses of a company's financial condition and can predict stock returns in the capital market.

Investors who will invest will first analyze the condition of the company so that their investment can provide returns. Getting a return (profit) is the main objective of the trading activities of investors. Investors use various methods, either through their own analysis of stock trading behavior, or by utilizing the tools provided by capital market analysts. The behavior pattern of stock trading in the capital market can contribute to the behavior pattern of

stock prices in the capital market. The pattern of stock price behavior will determine the pattern of return received from the stock.

Return is the result obtained from investment. Stock return is the difference between the selling price or the current price and the purchase price or the beginning of the period. Return can be divided into two, namely return realization and expected return. Obtaining returns also occurs in financial assets. Financial assets show the willingness of investors to provide a number of funds at this time to obtain a flow of funds in the future as compensation for the time factor during which the funds were invested and the risk borne. Investors in financial assets also expect maximum returns. One of the measuring tools for measuring financial performance is by using a company's financial ratios, namely the profitability ratio as measured by Return On Equity (ROE), the solvency rasio as measured by Debt to Equity Rasio (DER). The higher ROE the higher earning that underlying per 1 rupiah and the higher DER the riskier the company. From above situation, we investigate the effect of DER and ROE to Stock Return

Literature Review

According to Horne and Wachowichz, (2011: 12), stated that the definition of financial management is all activities related to the acquisition, collection and management of assets with several general objectives as the background.

Another opinion is expressed by Martono and Harjito (2010: 4) which defines financial management as all company activities related to how to obtain funds, use funds, and manage assets according to the company's overall goals.

From some of the opinions above, it can be concluded that financial management is an activity of planning, managing, managing, searching and storing funds owned by the company.

According to Kasmir (2013: 204) defines Return on Equity (ROE) is the result of Return on Equity or return on equity or profitability of own capital is a ratio to measure net profit after tax with own capital. This ratio shows the efficiency of the use of own capital. The higher this ratio, the better. This means that the position of the owner of the company is getting stronger, and vice versa.

$$Return\ on\ Equity\ (ROE) = \frac{EAT}{Equity} \times 100\%$$

According to Munawir (2011:35) the solvency ratio shows the company's ability to meet its financial obligations if the company is liquidated, both short-term and long-term financial obligations. This ratio is also called the leverage ratio, which measures the ratio of the funds provided by the owner to the funds borrowed from the company's creditors. This ratio is intended to measure to what extent the company's assets are financed by debt. This ratio shows an indication of the level of security of the lenders.

$$Debt \ to \ Equty \ Ratio (DER) = \frac{Debt}{Equity} \times 100\%$$

According to Jogiyanto (2013: 235), stock returns can be divided into two, namely as follows: 1) Return of Realized (realized return) Return of realization (realized return) is a return that has occurred which is calculated based on historical data. 2) Expected return. Expected return is the return that is expected to be obtained by investors

$$Stock \ Return = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Research Methods

This type of research used in this research is quantitative research. The quantitative research method is one type of research whose specifications are systematic, well-planned and clearly structured from the start to the making of the research design. Quantitative research methods, as suggested by Sugiyono (2011: 8), namely: Research methods based on the philosophy of positivism, used to research on certain populations or samples, data collection using research instruments, data analysis is quantitative / statistical, with the aim of testing hypotheses which have been set.

This research uses descriptive research type. According to Sugiyono (2011: 29) descriptive research is a method that serves to describe or provide an overview of the object under study through data or samples that have been collected as they are, without analyzing and making general conclusions.

This research was conducted to determine the effect of return on equity and debt to equity ratio on stock returns. The test to be carried out in this study uses the SPSS 25 tool (Priyatno, 2017) and the results of this test will be described by the researcher. The population are all financial companies that listed in Indonesian Stock Exchanges. The sample is PT BFI Finance Indonesia.

Results and Discussions

Table 2. Stock Return PT BFI Finance Indonesia Tbk Period 2009-2018

Year	*Stock Return* (%)
2018	22%
2017	107%
2016	25%
2015	12%
2014	0%
2013	23%
2012	-64%
2011	53%
2010	140%
2009	0%
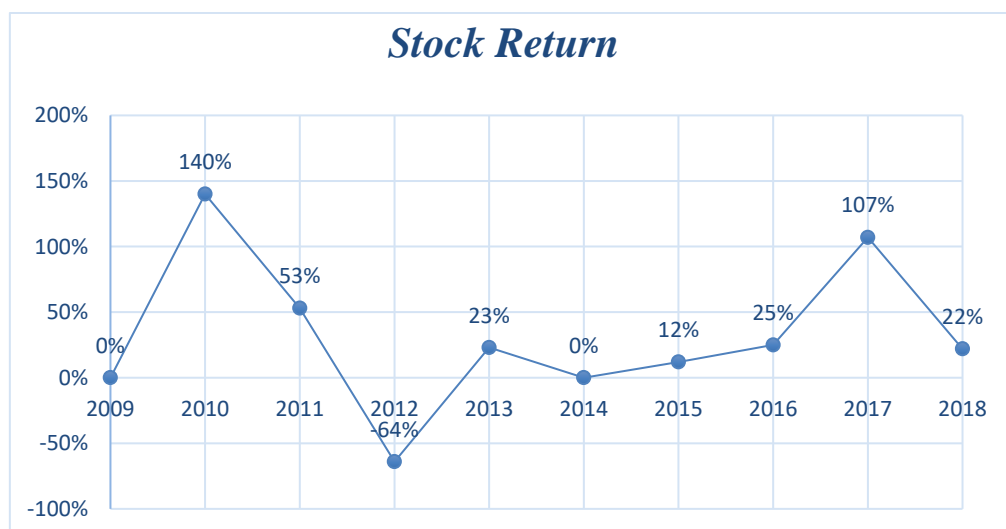
Source: www.sahamok.com

Figure 1. Stock Return PT BFI Finance Indonesia Tbk Period 2009-2018

Table 3. Earning, Equity and Debt PT BFI Finance Indonesia Tbk Period 2009-2018 (in million rupiah)

Years	Earning	Equity	Debt
2018	1,467,794	6,203,796	12,913,509
2017	1,187,510	4,904,266	11,579,007
2016	798,365	4,254,684	8,221,572
2015	650,288	4,019,103	7,751,311
2014	597,091	3,641,270	6,056,433
2013	508,619	3,397,356	4,895,968
2012	490,272	2,861,854	3,708,642
2011	425,382	2,366,232	2,938,545
2010	362,077	1,490,850	1,929,241
2009	301,368	1,534,170	858,810

Source: Financial Statement PT BFI Finance Indonesia

Figure 2. Earning PT BFI Finance Indonesia Period 2009-2018

Figure 2 shows that earning PT BFI Finance has been increased every yeear. It means that the business is going well.
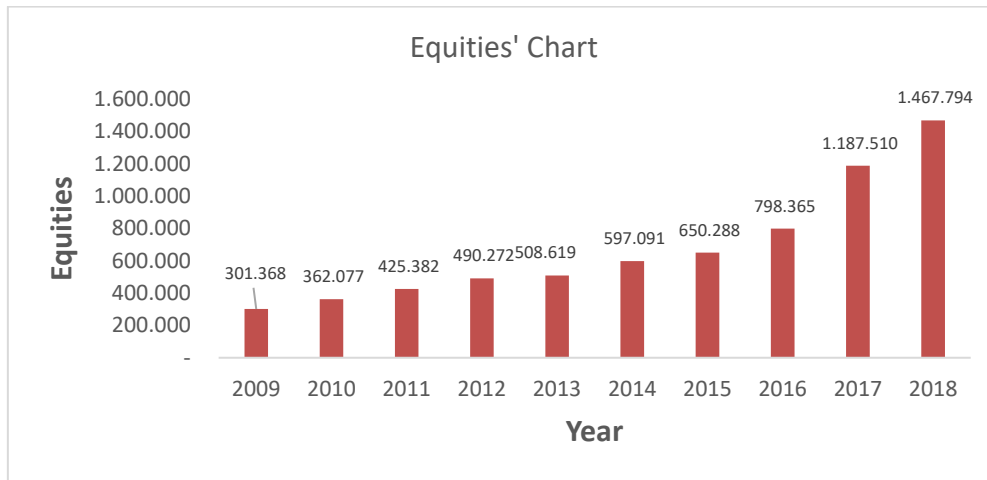

Figure 3. Equities' Chart PT BFI Indonesia

Figure 3 Shows that source of first funding are always moving up. It means the PT BFI Indonesia has been increased in aset growth in many years, Thus, the equity become the source of that.
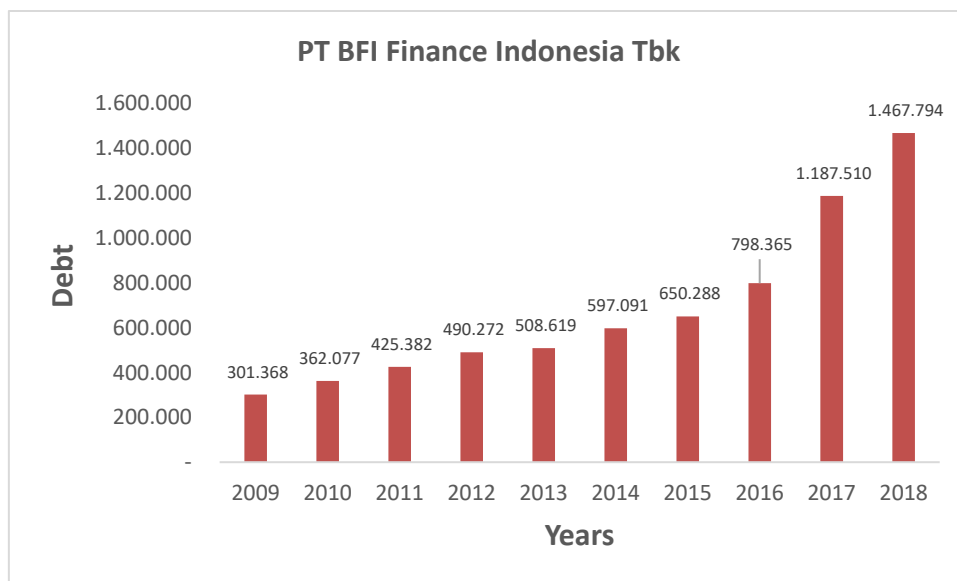

Figure 4. The Debt's PT BFI Indonesia from 2009 to 2018

Figure 4 shows that Debt's PT BFI Indonesia has been gone up especially from 2016 to 2018.

Table 4. ROE DER and Stock Return

Years	ROE	DER	Stock Return

Years	ROE	DER	Stock Return
2009	19,64%	1,79%	0%
2010	24,29%	1,01%	140%
2011	17,98%	0,81%	53%
2012	17,13%	0,77%	-64%
2013	14,97%	0,69%	23%
2014	16,40%	0,60%	0%
2015	16,18%	0,52%	12%
2016	18,76%	0,52%	25%
2017	24,21%	0,42%	107%
2018	23,66%	0,48%	22%

Table 4 shows the summary of the movement three variables. Those seem to be volatile/years, the mean of ROE 19% with minimum 14.97% and maximum 24.29%. The risk under 5 % is about 3.52%. Skewness ROE is positive and kurtosis ROE is -1.382 under 3 that means no. kurtosis. The mean DER is 0.7610 with minimum about 0.42 and maximum about 1.79. The risk above 5% is about 40%. Skewness DER is positive and kurtosis DER is above 3 that is 5.142. Stock Return's mean is 31.8% with maximum 140% and minimum -64%.

Table 5. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
ROE	10	14.97	24.29	19.3220	3.52396	.538	.687	-1.382	1.334
DER	10	.42	1.79	.7610	.40355	2.136	.687	5.142	1.334
Stock Return	10	-64.00	140.00	31.8000	57.37169	.550	.687	.812	1.334
Valid N (listwise)	10								

Skewness stock return is 0,55 and kurtosis is 0.812 that means no kurtosis.

Table 6. Linier Regression ROE to Stock Return

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-181.005	83.125		-2.178	.061
	ROE	11.013	4.239	.676	2.598	.032

a. Dependent Variable: Stock Return

Table 6 shows that ROE has signifcantly affected to stock return PT BFI Indonesia with t-count 2.598 > t-table 2.365. The parameter is 11.013 that is positive direction ROE and stock return. It means that higher ROE higher stock returns are.

Table 7. Linier Regression DER to Stock Return

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	40.522	42.788		.947	.371
	DER	-11.469	50.298	-.080	-.228	.825

a. Dependent Variable: Return_Saham

Table 7 shows that DER has not significantly affected to stock return PT BFI Indonesia with t-count -0.228 > -t-table -2.365. The parameter shows negatif or inverse impact. about 11.469. It is doubtful that higher DER make lower stock return.

Table 8. F-test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13817.895	2	6908.948	3.060	.111[b]

| Residual | 15805.705 | 7 | 2257.958 | | |
| Total | 29623.600 | 9 | | | |

a. Dependent Variable: *Stock Return*

b. Predictors: (Constant), DER, ROE

Sumber : Data diolah menggunakan SsSS versi 25.0

Table 8 shows that ROE and DER do not significant affect with F-count 3.060< F-table 4.46. It means ROE and DER have no significance simultaneously.

Table 9. R-squared

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.683[a]	.466	.314	47.51797	2.457

a. Predictors: (Constant), DER, ROE

b. Dependent Variable: *Stock Return*

Source : Using SPSS 25.0

The relationship between ROE DER, and stock return are 0.683 that is medium strong. R-squared is about 0.466 that shows only 46.6% can explain the model, thus, 53,4% is explained by others.

Effect of Return on Equity (ROE) on Stock Return

Based on the results of tests that have been conducted, there is a positive and significant impact on Return on Equity (ROE) on Stock Return at PT BFI Finance Indonesia Tbk. The results of this test are in line with several previous studies, including the results of research by Fransiska Sepriana and Saryadi that Return on Equity (ROE) has a positive and significant effect on Stock Returns in Property & Real Estate Companies listed on the IDX for the 2012-2016 period. In addition, research conducted by Ni Nyoam Sri Jayanti Perwani Devi and Luh Gede Sri Artini also found that Return on Equity (ROE) has a positive and significant effect on Stock Returns in Property & Real Estate Companies listed on the IDX for the 2015-2017 period.

The Effect of Debt-to-Equity Ratio (DER) on Stock Returns

Based on the results of tests that have been conducted, there is a negative and insignificant effect on Debt-to-Equity Equity (DER) on Stock Returns at PT BFI Finance Indonesia Tbk. The results of this test are in line with previous research, namely the results of research by Mangantar, and Baramuli that Debt-to-Equity Equity (DER) has a negative and insignificant effect on Stock Returns in the Food and Beverages Subsector Companies listed in IDX for the period 2013-2017.

Effect of Return on Equity (ROE) and Debt-to-Equity Ratio (DER) on Stock Returns

Based on the results of tests that have been conducted, there is a significant and insignificant influence on Return on Equity (ROE) and Debt-to-Equity Ratio (DER) on Stock Return at PT BFI Finance Indonesia Tbk. The results of this test are in line with previous research, namely the results of research by Mangantar, and Baramuli that the Return on Equity (ROE) and Debt-to Equity-Ratio (DER) have an effect and are not significant to the Stock Return of Subsector Companies. Food and Beverages listed on the IDX for the period 2013 - 2017.

Conclusions

Based on the results of research and discussion that has been described regarding the effect of Return on Equity (ROE) and Debt-to-Equity Ratio (DER) on PT BFI Finance Indonesia Tbk Stock Return for the 2009-2018 period. The results of the Partial Test (t test) show that there is a significant influence between Return on Equity (ROE) on Stock Return, it can be seen from the tcount 2.598> t table 2.365, with a significance value of 0.032 <0.05, it can be concluded that Ho1 rejected and Ha1 accepted. The results of the Partial Test (t test) show that there is a significant and insignificant influence between the Debt-to-Equity Ratio (DER) on Stock Returns, it can be seen from the tcount -0.228 > ttabel -2.365, with a significance value of 0.825> 0.05. The results of the research simultaneously (Test f) show that there is a negative and insignificant effect between Return on Equity (ROE) and Debt-to-Equity Ratio (DER) on Stock Return, it can be seen from the value of the fcount of 3.060> F table 4.46 with significance value 0.111 because the significant value is greater than 0.111> 0.05.

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