THE INFLUENCE OF FINANCIAL PERFORMANCE ON STOCK RETURN IN RETAIL COMPANY

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ABSTRACT

Introduction: Investors need to understand the company's financial performance and other factors to make the right investment decisions. This study aims to analyze the effect of profitability, liquidity, leverage, and firm size on stock returns.
Methods: This research is a quantitative study. A sample of 16 companies was taken purposively from 28 retail companies for the 2016-2020 period. The analytical technique used is multiple linear regression
Results: Profitability (return on assets), liquidity (quick ratio), and firm size have no significant effect on stock returns, while leverage (debt to equity ratio) has a significant positive effect on stock returns.
Conclusion and suggestion: Further researchers can add other variables that are not included in this research model in order to find out the variables that can affect stock returns.

INTRODUCTION

Investment is a commitment to a number of funds or other resources carried out at this time, with the aim of getting profits in the future. One investment option can be done through the capital market. Investors' expectations in investing in shares, apart from being the owner of a company with certain proportionate ownership, are also expected to be able to provide a certain return (Kristina & Sriwidodo, 2012). The sources of stock returns on an investment consist of two components, namely dividends and capital gains (losses). A fairly high stock return will attract more investors to buy the stock. Therefore,

investors need to predict in order to find out how much stock returns will be obtained. Stock returns can be estimated using fundamental analysis that analyzes the financial and economic conditions of the company that issued the shares (Wijesundera et al., 2016).

Financial ratios are grouped into five categories, namely liquidity ratios, activity ratios, solvency ratios, profitability ratios, and market ratios (Hanafi, Mamduh, & Halim, 2016:74). Profitability reflects the level of management effectiveness of a company which can be seen from sales profit and investment income (Sutriani, 2014). If management carries out its activities effectively, profit from sales and investment income will increase.

According to Brigham & Houston (2019: 126), liquidity describes the company's ability to pay debts that mature in one year. A company with high liquidity means that the company has the ability to pay off its short-term obligations properly and the liquidity risk is also small. Good liquidity will attract investors to buy shares of the company. However, if liquidity is too high, investors assume that too many current assets are underutilized by the company so investors are less interested in investing (Firmansyah & Sari, 2017).

Brigham & Houston (2019:140) state that leverage describes the extent to which a company is funded with debt. High leverage can harm the company because the company will be trapped in high debt levels and find it difficult to escape from the debt burden (Kusmayadi, Rahman, & Abdullah, 2018). Therefore, if the debt is too high, the company should not add debt to avoid unwanted risks.

Unlike previous research, this study adds company size to see its effect on stock returns. The use of company size, considering its effect on many things, such as company performance. Company size can be seen from the company's assets. The greater the assets of a company, the greater the capital invested, the greater the sales of a company, the more circulation of money, and the greater the ability to earn profits (Peranginangin, 2015). The greater the total assets owned by a company, the company is included in the size of a large company.

LITERATURE REVIEW
Stock Return

According to Darmadji and Fakhruddin (2012:5), stock represents ownership of an individual or entity in a company which shows that the owner has rights to the wealth of the company that issued it. Profits derived from stock are dividends and capital gains. Dividends are profits that are given to shareholders by the company for the profits they earn, while capital gains are the difference between the purchase price and the selling price of the stock.

Profitability and Stock Return

Profitability is used to determine the company's ability to generate profits or how effectively management manages the company (Syahyunan, 2013:92). One of the commonly used profitability measures is ROA (Return On Assets), which measures the contribution of assets in generating net income. Investors are interested in buying shares of companies with high ROA values. This is because it indicates that the management is able to manage assets effectively and efficiently. Investors' interest in certain stocks increases stock prices as well as stock returns. Research conducted by Purba (2019); Saputra & Dharmadiaksa (2016); Pratiwi & Putra (2015); Wijaya and Sedana (2020) show that profitability has a significant positive effect on stock returns.

H1: Profitability partially has a significant positive effect on stock returns.

Liquidity and Stock Return

Liquidity shows the company's ability to meet its short-term obligations. In other words, liquidity can be used to measure how far the company's ability to pay off its short-term obligations that will soon mature (Hery, 2016: 149). This study uses the QR ratio (Quick Ratio) to measure the level of company liquidity. QR serves to measure the company's ability to meet its short-term obligations that are due soon by using very current assets, excluding inventories and prepaid expenses.

A company with a high QR indicates that the company is able to pay off its short-term obligations and that the liquidity risk is small. Therefore, many investors are attracted to the company's shares and causing high demand for shares so that stock prices rise as well as stock returns. Research conducted by Wijaya and Sedana (2020) states that QR has a significant positive effect on stock returns. However, if the QR is too high, investors assume that there are too many current assets that are underutilized by the company so investors are less interested in investing. This is in accordance with research conducted by Purba (2019) which states that QR has a significant negative effect on stock returns.

H2: Liquidity partially affects stock returns.

Leverage and Stock Return

According to Hery (2016:162), leverage measures the company's assets financed by debt. Leverage is a financial performance measure of the amount of debt that is the company's expense. This study uses DER (Debt to Equity Ratio) to measure the leverage ratio by comparing the number of funds provided by creditors with the amount of the company's own capital.

The trade-off theory states that the company is able to balance the benefits of using debt. Utilization of debt increases the value of the company as well as the stock prices and returns that will be obtained. Research conducted by Saputra & Dharmadiaksa

(2016); Firmansyah & Sari (2017) state that DER has a significant positive effect on stock returns. However, if the use of debt is higher than the company's ability to generate profits, the company will be trapped in high debt levels and find it difficult to escape the interest expense. The company will go bankrupt and will not be able to provide the returns that investors should get. This is in line with Pratiwi & Putra (2015) who states that DER has a significant negative effect on stock returns.

H3: Leverage partially affects stock returns.

Firm Size and Stock Return

According to Yuliantri & Sujana (2014) company size is related to the opportunity and ability to enter the capital market and other types of external financing. Total assets were used to firm size in this research.

Large companies are able to buy inputs in large quantities so that they get discounts and can sell outputs at low prices. Therefore the company will get more profit and investors will also get an increase in return. Research by Handayani et al., (2019); Pratiwi and Putra (2015) state that company size has a significant positive effect on stock returns. However, the size of the company also bears a large fixed burden, hence if it is not balanced with large revenues, the company will not be able to generate adequate returns for investors. This is in line with the research of Sriti et al. (2021) which states that company size has a significant negative effect on stock returns.

H4: Size partially affects stock returns.

RESEARCH METHODS

The population of this study is retail companies on the Indonesia Stock Exchange. The sample was taken purposively with the following criteria: (1) retail companies listed on the Indonesia Stock Exchange for the period 2016-2020, (2) fully publishing annual financial reports for 2016-2020, (3) financial statements made in rupiah currency, (4) has positive equity.

The data used in this research is quantitative data. The data was taken using a documentation technique consisting of the company's annual financial statements in 2016-2020 through the official website of the Indonesia Stock Exchange at www.idx.co.id and www.idnfinancial.com as well as stock price data through the website www.yahoo.finance.com in the period 2017-2021.

The dependent variable of this study is stock return and the independent variables are profitability (return on assets), liquidity (quick ratio), leverage (debt to equity ratio), and firm size. The variables used in this study can be seen in Table 1.

Table 1.

Operational Variables

Variable	Measurement
Stock return is the level of profit obtained by investors as a result of their investment, in the form of dividends and capital gains (losses).	$$Stock\ Return\ = \frac{Pt - (Pt - 1) + \text{Dividend}}{(Pt - 1)}$$
Profitability Profitability shows the company's ability to generate profits in a certain period. The measurement of profitability in this study uses ROA which measures how much net profit will be generated from each rupiah of funds embedded in total assets.	$$Return\ on\ Asset = \frac{\text{Net Income}}{\text{Total Asset}}$$
Liquidity liquidity can be calculated by the QR (Quick Ratio) which measures a company's ability to meet its short-term obligations that are due soon using very current assets, excluding inventories and prepaid expenses.	$$QR = \frac{\text{Current Asset} - \text{Inventory} - \text{prepaid expens}}{\text{Current Liabilities}}$$
Leverage Leverage refers to the extent to which a company is financed by debt. The measurement of leverage in this study uses the Debt to Equity Ratio (DER), which is a comparison between debt and equity.	$$DER = \frac{\text{Total Liabilities}}{\text{Total Equities}}$$
Firm Size The Firm size can be seen from its total assets. The larger the total assets of the company is categorized as a large company.	Firm Size = Ln (Total Aset)

To examine the effect of return on assets, quick ratio, debt to equity ratio, and firm size on stock returns of retail companies for the 2016-2020 period, multiple linear regression analysis was used with the following equation:

$$RS = \beta o\ \beta_1 ROA + \beta_2 QR + \beta_3 DER + \beta_4 UP + e$$

where RS is stock return, Bo is constant, β_1 β_2 β_3 β_4 regression coefficient, ROA is profitability, QR is liquidity, DER is leverage, UP is firm size, and e is error. Simultaneous testing of the effect of all independent variables on stock returns with the F test and partial testing with the t test.

RESULT AND ANALYSIS

Table 2. Descriptive Analysis

Variabel	N	Min	Max	Mean	Std Dev
SR	80	-0,737	6,890	0,218	0,972
Prof	80	-0,251	0,416	0,029	0,112
Lik	80	0,159	6,304	1,111	1,195
Lev	80	0,089	23,416	2,319	3,191
FS (billion Rp)	80	158	22.166.	5.135	4.836

Source: Statistical result

Table 2 shows the minimum stock return value of the retail sub-sector company - 73.6% owned by PT Mitra Communication Nusantara Tbk (MKNT) in 2019. The low stock return is because the current year's stock price is lower than last year's stock price. While the maximum stock return is PT Matahari Putra Prima Tbk (MPPA) in 2020 of 688%. The high stock return of PT Matahari Putra Prima Tbk (MPPA) is caused by increasing stock prices from year to year so that returns increase. The mean value of stock returns is 21.83% with a standard deviation of 97.17%. The mean is smaller than the standard deviation, so the data is heterogeneous due to the varying distribution of the data.

The minimum value of profitability calculated by the ROA is -25% of PT Hero Supermarket Tbk (HERO) in 2020. The low ROA of HERO is because HERO suffers losses due to selling expenses and other expenses that are greater than their income. While the maximum ROA of 41.57% belongs to PT Matahari Department Store Tbk (LPPF) in 2016. The high ROA shows the performance of PT Matahari Department Store Tbk is good so that it can generate maximum profit by optimizing its assets. The large ROA value also shows that the revenue of PT Matahari Department Store Tbk is much greater than the cost of goods sold and other expenses. The mean value of ROA is 2.9% with a standard deviation of 11.21%, indicating that the data is heterogeneous or the distribution of the data varies.

The minimum liquidity value as measured by QR is 0.15 achieved by PT Hero Supermarket Tbk (HERO) in 2020. The low QR is due to the small proportion of current assets to meet its current liabilities, so it can be said that its ability to meet its short-term obligations is not good. While the maximum QR of 6.3 was achieved by PT Electronic City Indonesia Tbk (ECII) in 2016. The high QR indicates that PT Electronic City Indonesia Tbk is able to meet its short-term obligations with very good current assets. However, the assets are greater than the liabilities of PT Electronic City Indonesia Tbk due to the high value of receivables. Current assets with a fairly high composition of receivables are not good for the company's liquidity because of the potential for bad debts that make the company unproductive. The mean QR value of 1.1106 with a standard deviation of 1.19477 indicates the data is heterogeneous.

The minimum leverage value as measured by DER is 8.91% owned by PT Electronic City Indonesia Tbk (ECII) in 2016. The low DER indicates that PT Electronic City Indonesia Tbk's liabilities are much smaller than its equity. This shows that the company prefers to use its equity rather than its liabilities in its operational activities. While the maximum DER of 2.341% was achieved by PT Matahari Putra Prima Tbk in 2020. The high DER indicates that PT Matahari Putra Prima Tbk's source of funding is greater than debt compared to its own capital. The mean value of DER is 231.89% with a standard deviation of 319.098%, indicating that the data is heterogeneous.

The smallest company size Rp. 157,848,592,051 were PT Mitra Communication Nusantara Tbk (MKNT) in 2016. The small size of the company is because PT Mitra Communication Nusantara Tbk has the smallest total assets compared to other companies in the sample and research period. The largest company size is Rp. 22,165,968,000,000 is PT Sumber Alfaria Trijaya Tbk (AMRT) in 2018. The high size of the company is due to PT Sumber Alfaria Trijaya Tbk. The mean value of the company size is Rp. 5,134,798,158,255 with standard deviation of Rp. 4,835,549,722.115, meaning that the data is homogeneous.

Classic assumption test

A classical assumption test is used to ensure the accuracy of the regression model in the estimation. In this study, the classical assumption test was carried out using the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

Table 3. Classic Assumption Test

Testing, Tools & Criteria	Result	Conclusion
Autocorrelation (Durbin Watson) 1,7430 <DW< 2,257	2,005	Does not contain Autocorrelation
Multicollinearity (Variance Inflation Factor = VIF) VIF < 10 & Tol > 0,1	PROF-VIF =1,149 Tol = 0,870 LIK - VIF =1,179 Tol 0,848 LEV - VIF =1,220 Tol 0,819 UP - VIF = 1,126 Tol = 0,888	Does not contain Multicollinearity
Heteroskedasticity (Rho Spearman) P Value F>5%	Corr Coeff PROF = 0,324 Corr Coeff LIK = 0,862 Corr Coeff LEV = 0 Corr Coef UP = 0,083	Does not contain heteroscedasticity (homoscedasticity) except for Leverage
Normality (Kolmogorov Smirnov) P Value KS > 5%	0,009	Model has not normal distribution data

Based on table 3, the results of the normality test show that the value of Exact Sig. (2-tailed) of 0.009 which is smaller than 0.05 or 0.009 <0.05, so it can be concluded that the regression model is not normally distributed.

The results of the multicollinearity test show that the results of the tolerance value on the profitability (Return on Assets), liquidity (Quick Ratio), leverage (Debt to Equity Ratio) variables, and firm size are greater than 0.10 and the Variance Inflation Factor (VIF) value is variable profitability (Return on Assets), liquidity (Quick Ratio), leverage (Debt to Equity Ratio), and company size is smaller than 10. Hence it can be concluded that there is no multicollinearity between independent variables.

The results of the autocorrelation test showed there was no autocorrelation. The results of the heteroscedasticity test on the variables (Return on Assets), liquidity (Quick Ratio), and company size have a sig value. > 0.05, so these results indicate that there is no symptom of heteroscedasticity. Meanwhile, the leverage variable (Debt to Equity Ratio) has a sig value. <0.05, so these results indicate that there is a symptom of heteroscedasticity.

Analysis and Discussion

Based on table 4, the R^2 is 0.340 (34%) which means that the effect of profitability, liquidity, leverage, and firm size on stock returns is 34%. The remaining 66% is influenced by other variables outside the model. The significance value of 0.000 is smaller than the 0.05 level of significance, which means that profitability, liquidity, leverage, and firm size simultaneously have a significant effect on the stock returns of companies in the retail sub-sector. Constant -2.118 means that if ROA, QR, DER, and UP are zero, then the stock return has a value of -2.118.

Table 4. The output of Regression on Stock Return

Variable	B	t	Sig	Conclusion
Constant	-2,118	-0,866	0,389	
Profitability	1,035	1,187	0,239	Accepted
Liquidity	0,078	0,937	0,352	Accepted
Leverage	0,192	6,091	0,000	Rejected
Size	0,62	0,736	0,464	Accepted
F hitung	9,638	Sig F	0,000	
R Square	0,340			

Source: Statistical result

Effect of Profitability on Stock Return

Based on table 4, the profitability regression coefficient (ROA) is 1.035, meaning that for every increase in ROA by one unit, the stock return increases by 1.035 units and vice versa, assuming the other independent variables are constant. Based on the analysis that has been done, the results of the t-count of the ROA variable of 1.187 are smaller than the t-table of 1.645. These results are also supported by the results of the t-test which shows a significance value of t of 0.239 which is greater than = 0.05, H0 is accepted, meaning that partial profitability has no significant positive effect on stock returns.

The test results are in accordance with the theoretical concept and the hypothesis that ROA has a positive effect. An increase in ROA will cause an increase in demand for the stock and an increase in stock prices so that stock returns also increase. The increase in ROA can be caused by the income earned which is much greater than the cost of goods sold and other expenses. However, in this study, the effect of ROA is not significant because the level of profitability has not been able to convince investors to buy stock, because it is possible that investors tend to prefer second-liner stocks whose movements are more liquid even though their stock prices tend to fluctuate. These results are in line with Oroh, Rate, & Kojo (2019) states that ROA has no effect on stock returns. However, the results of this study are not in line with research conducted by Wijaya & Sedana (2020); Purba (2019); Saputra & Dharmadiaksa (2016); and Pratiwi & Putra (2015).

Effect of Liquidity on Stock Return

Based on table 4, the liquidity regression coefficient (QR) is 0.078, meaning that for every increase in QR by one unit, the stock return increases by 0.078 units and vice versa, assuming the other independent variables are constant. The results of the t-test of 0.352 are greater than = 0.05, H0 is accepted, meaning that partial liquidity has no significant positive effect on stock returns.

Tests show that an increase in QR increases the company's ability to meet its short-term obligations with its current assets. Investors are more interested in companies that have a high QR, which results in rising stock prices and stock returns. However, in this study, the effect of QR was not significant. This situation can be caused by a QR that is too high, it could be because the company has high receivables hence the company is not productive. This reason causes QR not to be responded to well by investors therefore it does not have much effect on stock prices and stock returns. This research is in line with Firmansyah and Purnamasari (2017) that QR has no effect on stock returns.

Effect of Leverage on Stock Return

Based on table 4, the leverage regression coefficient (DER) is 0.192, meaning that for every unit increase in DER, the stock return will increase by 0.192 and vice versa, assuming the other independent variables are constant. Based on the analysis that has been done, the t-count result for the DER variable is 6.091, which is greater than the t-table, which is 1.960. This result is also supported by the results of the t-test which shows a significance value of t of 0.000 which is smaller than = 0.05, H0 is rejected, meaning that partial leverage has a significant positive effect on stock returns.

These results are in accordance with the trade-off theory that companies are able to balance the benefits and sacrifices arising from the use of debt. This result is also

supported by the high average DER value of 2.3 with a standard deviation of 3.2. A value of more than 1 indicates the company uses more debt in its operational activities, and it will cause the company's interest to be high. The large interest expense can be used to reduce taxes and increase company profits. The greater profits will attract investors to invest and increase stock prices as well as stock returns. The results of this study are in line with research conducted by Firmansyah & Purnamasari (2017), and Saputra & Dharmadiaksa (2016) state that DER has a significant positive effect on stock returns. However, the results of this study are not in line with the research conducted by Purba (2019) and Rate & Kojo (2019).

The Effect of Firm Size on Stock Return

Based on table 4, the regression coefficient for company size is 0.62, which means that for every increase in company size by one unit, the stock return increases by 0.62 units and vice versa, assuming the other independent variables are constant. The results of the t-test of 0.464 are greater than = 0.05, so the null hypothesis is accepted, meaning that partially the size of the company has no effect on stock returns.

The results are in accordance with the theory of economies of scale, large companies are able to generate large profits. The firm size can be seen from its total assets. The greater the total assets, the company is classified as large. The firm size is not significant because if the size is not matched by a much larger income to cover all costs incurred, then the profit generated is not appropriate. Investors tend not to consider the firm size in investing if it is not supported by good performance. The results of this study are not in line with the research of Sriti et al., (2021) that company size has a significant negative effect on stock returns, while the research of Handayani et al (2019), and Pratiwi and Putra (2015) states that company size has a significant positive effect on stock returns.

CONCLUSION

Profitability, liquidity, leverage, and company size simultaneously have a significant effect on the stock returns of retail sub-sector companies with a value of 34%. The partial hypothesis testing shows that profitability, liquidity, and firm size have an insignificant positive effect on stock returns, while leverage has a significant positive effect on stock returns.

This study still has several limitations (1) This study used a sample of companies in the retail sub-sector during the 2016-2020 period and only got 16 samples of companies that were used as research objects, (2) The number of observations (data) in this study was small and did not pass the normality test and heteroscedasticity test on the leverage variable (Debt to Equity Ratio). Based on the limitations of the study, it is recommended that further researchers regarding stock returns add more data by extending the observation period and the number of companies or add variables such as cash flow and macroeconomic variables such as the BI rate

and the Rupiah exchange rate because the return on assets, quick ratio, debt variables to equity ratio, and firm size are only able to explain stock returns of 34%.

Issuers are advised to pay attention to leverage (Debt to Equity Ratio) or the capital structure they have because the results of this study show that leverage has a significant positive effect on stock returns. Companies must balance the use of debt with equity in corporate funding in order to optimize the capital structure. Investors are advised to consider leverage (Debt to Equity Ratio) in assessing the company's financial performance because it has a significant positive effect on stock returns. Information about financial performance that has a significant effect on stock returns to optimize profits for investors in the future.

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