EFFECT OF COMPANY FINANCIAL RATIO, PRICE EARNING RATIO ON STOCK RETURN AND EARNING PER SHARE AS MODERATING VARIABLES IN MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

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ABSTRACT
The objective of the study was to test and analyze the influence of Company’s Financial Ratio and Price Earning Ratio simultaneously and partially on Stock Return with Earning Per Share as moderating variable in Manufacture Companies listed in IDX (Indonesia Stock Exchange). The data were gathered by using secondary data. The population was manufacture companies listed in IDX, and 42 of them were used as the samples. The data were analyzed by using multiple linear regression analysis and residual regression analysis. The result of the study showed that the variables of Financial Ratio (Leverage, Liquidity, and Probability) and Price Earning Ratio simultaneously had significant influence on the variable of Stock Return, the variables of Leverage and Liquidity partially did not have any influence on Stock Return, and the variables of Profitability and Price Earning Ratio partially had significant influence on Stock Return in Manufacture Companies listed in IDX. The variable of Earning Per Share as moderating variable would be able to strengthen the correlation of Leverage, Liquidity, Profitability, and Price Earning Ratio with Stock Return in Manufacture Companies listed in IDX.

Keywords: Leverage, Liquidity, Profitability, Price Earning Ratio, Stock Return

1. INTRODUCTION
The capital market is a meeting place for sellers and buyers, where the forms traded are securities such as stocks, bonds and others. The capital market brings together securities sellers with securities buyers where stocks are the most popular securities among other securities on the capital market because when compared to other investments the stock allows investors to get a larger return or profit in a relatively short period of time (high rate) although stock also have high risk properties, that is, one day stocks can also decline rapidly. So the stock has high risk high returns. The value of a company that goes public or is registered in the capital market can sometimes be reflected in the stock market price. The difference between the stock market price and the value of a company is called a return that will be received by the stockholders. Return can be positive or negative. Positive return is reduced by the ratio of dividends to be received by stockholders to the initial stock price is a capital gain while the return is negative after IDX reduced by the ratio of dividends to initial stock prices is a loss.

The level of profit (return) is the motivation of investors in investing, therefore, returns are often used as a measure in comparing various investment alternatives. Historical return measurements provide two benefits for investors. The first thing, historical return measurement is that it allows investors to know their success in making an investment. The second thing, historical return measurements also play a role in estimating future returns.
One of the objectives of investors in investing is to get dividends. Another goal is to obtain capital gains, namely the difference between the current investment price and the investment price in the past. Such investor behavior indicates that they buy stocks when the stock price drops and resells when the stock price rises. This indication concludes that a prospective investor who wants to buy stocks in the secondary market must always pay attention to the stock price movements. The strength of investor analysis in assessing and estimating stock prices will affect the capital gains that will be received. This is because the strength of this analysis will provide information to investors the right time to buy or sell the stock they have.

Seeing the development of the capital market which is associated with global influences, the monetary crisis and economic crisis that had hit in mid-1997, has given a very difficult challenge for companies to go public. Although in 1999 the economic crisis and the monetary crisis have gradually recovered, the development of the capital market has not been as much as possible before. Monetary policy determined by the monetary crisis and company prospects is increasingly uncertain, directly affecting investor behavior with the performance of issuers. Investors are those who are both individuals and institutions/companies that have excess funds for more productive businesses. While issuers are companies that need additional funds for their business needs by registering themselves on the capital market and issuing stocks.

The movement of stock prices on the stock exchange is generally predicted by investors and brokers with technical and fundamental analysis. Technical analysis is a method of forecasting the movement of stock prices, indices or other financial instruments using charts based on historical data (Firmansyah et.al, 2001). While fundamental analysis is an analysis to calculate the intrinsic value of stocks by using company financial data (Jogiyanto, 2008). Fundamental analysis assumes that stock prices are reflections of the value of the company concerned. Therefore, in conducting research on a stock through a fundamental approach can be used accounting information with financial ratio analysis techniques which are the results of further calculations of financial statements.

The phenomenon that exists in manufacturing companies is the difference in fluctuations in stock prices of each issuer. There are some companies whose financial performance is proxied by the "good" ROA, EPS, PER ratio followed by rising stock prices, but there are some issuers whose financial ratios are "good" but not followed by rising stock prices.

Raharja et al (2008) prediction of bond ratings can be formed from financial ratios such as leverage, liquidity, solvency, profitability and productivity. This is also supported by Silaban's (2013) study, that financial ratios (including debt financial ratios, multiple interest payments, ROA, and profit-on-sales margin) have an influence on bond ratings. Financial ratio is a financial analysis tool for companies to assess the performance of a company based on the comparison of financial data contained in the financial statement post. Companies that have good financial ratios will make outsiders assume that the company's performance is also good. So the better the financial ratios the higher the bond rating of a company. The same results are also indicated by Stock Return. Variables of leverage, liquidity, solvency, profitability and productivity have a significant positive effect on Stock Returns.

Financial ratios are one alternative to find out whether the financial information produced can be useful for predicting the price or stock return in capital markets, including the company's financial condition in the future. The main set of financial
statements in the form of balance sheet, income statement, statement of changes in capital, and cash flow statements have not been able to give maximum benefit to the user before the user analyzes the financial statements further in the form of financial ratio analysis (Penman 1991 in Tuasikal 2000). Furthermore Horringan (1965) states that financial ratios are useful for predicting financial difficulties of a company. With financial ratios, it allows investors to assess the financial condition and results of current and past company operations, and as a guide for investors to assess past and future performance.

Tuasikal (2000) who examined the benefits of financial statement analysis in predicting stock returns in manufacturing and non-manufacturing companies listed on the JSX for the next one to two years found that accounting manufacturing companies in the form of financial ratios were not useful in predicting stock returns for the period the next year. For the prediction of the next two years, the test results show accounting information in the form of certain financial ratios useful in predicting stock returns. In non-manufacturing companies, the test results show that accounting information in the form of financial ratios is not useful in predicting stock returns, both for the period of one and two years ahead. Other findings show that accounting information in the form of certain financial ratios has different predictive abilities between manufacturing and non-manufacturing companies in predicting stock returns for the next two years.

Several other studies that have been carried out on financial ratios among others are those that test finance to predict corporate liability (Altman, 1968; Dambolena and Khoury, 1980; Whitted and Zimmer, 1984; Hounghton, 1984; Robertson, 1985; Thomson, 1991), predict stock profits (O'connor, 1973; Barlev and Livnat, 1990), predict bond ratings (Pinches et al., 1973; Lee et al., 1982), classify merger firms (Simkowitz and Monroe, 1971; Rege, 1984), and predict earnings changes (Freeman et al., 1982; Machfoedz, 1994), Zainuddin and Hartono 1999). However, various findings from the research that have been carried out are actually still adequate if what is desired is a formal construction of the theory of financial ratio analysis. This can be seen from the results of research that still tend to be inconsistent for different times and places. In addition, some of them are even contradictory to others. In the context of this problem, this study is intended to conduct further testing of empirical findings regarding financial ratios, especially those that have implications for predicting stock prices in the future.

Based on the results of these studies and associated with the existing phenomena, and remembering that fundamental analysis is one of the most important means for investors to assess the issuer's financial performance as one of the considerations in making investment decisions that will ultimately affect the movement of issuer's stock return. Financial Ratio data used by researchers as independent variables are Leverage, Liquidity, Profitability and added with Price Earnings Ratio (PER). While the dependent variable is stock returns and Earning Per Share (EPS) as Moderating Variables. Thus researchers are motivated to raise it in a scientific paper in the form of a Thesis with the title "The Influence of Corporate Financial Ratios, Price Earnings Ratio Against Stock Returns and Earning Per Share as Moderating Variables in Manufacturing Companies on the Indonesia Stock Exchange".

2. LITERATURE REVIEW AND HYPOTHESIS
2.1. Stock Return

Stock Return is the result or profit obtained by stockholders as a result of the investment. Jogiyanto (1998) distinguishes stock returns into two types, namely realized
returns (realized returns) and expected returns. Return realization is a return that has occurred and is calculated relative. This return realization is important in measuring company performance and as a basis for determining future returns and risks. While the expected return is a return that is expected to occur in the future and is uncertain. Rate of return is the rate of stock returns on investments made.

The composition of stock return calculations consists of capital gains (loss) or dividends. Capital gain (loss) is the difference in profit / loss experienced by shareholders because the stock price is relatively higher or lower than the stock price of the previous period. While dividends are part of company profits that are distributed at certain periods in accordance with management decisions. Dividend or yield can be zero (0) and positive (+).

\[
Stock\ Return =\ Capital\ gain\ (loss) +\ Yield
\]
\[
= \left(\frac{Pt - Pt_{-1} + D1}{Pt_{-1}}\right) \times 100\%
\]

2.2. Financial Ratio

Financial ratio is a number obtained from a comparison of one financial statement post with other items having a significant and significant relationship. Where this financial ratio is very important in conducting an analysis of the financial condition of the company and can be used as a basis for making decisions for both external and internal parties.

a. Leverage

Leverage ratio or solvency ratio is a ratio used to measure the extent to which a company's assets are financed by debt. That is, how much debt burden is borne by the company compared to its assets. In a broad sense it is said that leverage ratios are used to measure a company's ability to pay all its obligations both short and long term if the company is liquidated (Kasmir, 2010). One of the tools used to measure leverage is to use Debt to Equity Ratio. Debt to Equity Ratio is the ratio used to assess debt with equity. To find a debt to equity ratio can use the following formula:

\[
Debt\ to\ Equity\ Ratio = \frac{Total\ Amount\ of\ debt}{Total\ Equity}
\]

b. Liquidity

According to Sartono (2002) liquidity ratios are financial ratios that measure the level of a company's ability to pay off short-term liabilities on time. According to Halim (2000) liquidity ratio is measuring the ability of a company's short-term liquidity by looking at the company's current assets relative to its current debt. Financial analysis can use several liquidity ratios to assess whether the company has the ability to pay obligations that are immediately due (Tandelilin, 2001). One of the tools used to measure liquidity is to use the current ratio. To find the current ratio can use the following formula:

\[
Current\ Ratio = \frac{Current\ asset}{Current\ Liabilities}
\]

c. Profitability

Profitability is the end result of a number of policies and decisions made by the company. Profitability ratios indicate how effective the entire company is managed (Pearce and Robinson, 2007). This profitability ratio gives an idea of how effective the
company operates so as to provide benefits to the company. This is indicated by profits generated from sales and investment income. Meanwhile according to Brigham and Houston (2009) profitability ratios are a group of ratios that show the combined effects of liquidity, asset management, and debt on operating results. A high level of profitability can indicate the company's ability to go concern. High profitability can also show the company's ability to fulfill its obligations. One of the tools used to measure liquidity is to use Return on Assets (ROA). Return on Assets (ROA) is used to measure the ability of a company to utilize its assets to make a profit. The formula for looking for ROA is as follows:

$$\text{Return On Asset} = \frac{\text{Net Income After Tax}}{\text{Total Asset}}$$

2.3. Price Earning Ratio (PER)

Price Earning Ratio has how much money must be paid by investors to obtain profit in the current period. PER is an analysis that is very popular in financial analysis circles because of its ease. The market analysis uses the average PER to mark the level of stock prices in general (Jogiyanto, 1998). According to Husnan, (2005) the factors that influence PER, namely: Dividend Payout Ratio where if other factors are considered consistent, then the increase in the payout ratio will increase PER. In additions PER is also influenced by the level of profit that is deemed appropriate (discount rate) where if other factors are considered consistent, then the increase in the discount rate will decrease PER. The last factor is dividend growth if other factors are considered consistent, then increasing dividend growth will increase PER. Mathematically PER can be formulated as follows:

$$\text{Price Earning Ratio (PER)} = \frac{\text{Market Prices Per Share}}{\text{Net profit}}$$

2.4. Earning Per Share (EPS)

EPS is one that can show the performance of a company, because the size of EPS will be determined by company profits. Dividends are profits given by issuers to shareholders. From the company's net income, some of it is distributed to shareholders in the form of dividends, while others are set aside as retained earnings. Retained earnings are one of the most important sources of funds to finance the company's growth. However, dividends form a flow of money that increasingly flows into the hands of shareholders. The stockholders certainly expect to get large amounts of dividends. For this reason, companies must be able to allocate their net profits wisely. Companies that provide large dividends, stock prices will also increase. Conversely, a company that continues to not distribute dividends, its stock price will also decrease. If the company's net income increases, then the stock price will also rise. EPS is one that can show company performance, because the size of EPS will be determined by company profits. Mathematically EPS can be formulated as follows:

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Income After Tax}}{\text{Market Prices Per Share}}$$

Conceptual Framework

Based on research problems and the theoretical foundation, the researchers' conceptual framework can be seen in the picture below:
Thus the research hypothesis can be formulated as follows:


3. METHOD

3.1. Research Method

Research conducted using a type of quantitative research. The quantitative approach aims to test theory, build facts, show relationships between variables, provide statistical descriptions, estimate and predict results. Research that uses a quantitative approach to statistical numbers or codes that can be quantified. The data are in the form of variables and their operationalization with a certain size scale, for example nominal, ordinal, interval, and ratio.

3.2. Location

The research was conducted at the Indonesia Stock Exchange through internet media with the site www.idx.co.id.

3.3. Population and Sample

The population used in this study is a manufacturing company listed on the Indonesia Stock Exchange (IDX) during the 2011-2013 period with a total population of 195 companies.

The sampling technique used was purposive sampling, namely the technique of determining the sample with certain considerations (Sugiyono, 2004: 78). Some of the considerations determined by the researcher are as follows:

1. The company is listed on the IDX in 2011-2013.
2. The company issues financial reports every year of observation.
3. These companies are not in the process of delisting in 2011-2013.

Of the 95 listed issuers, only 42 of them met the criteria to be determined as research samples.
3.4. Method of collecting data

In this study, data collection was carried out by the documentation method, which is collecting secondary data obtained from internet media by downloading through the www.idx.co.id site to obtain data about published financial statements. The type of data used in this study is a type of quantitative data. This research uses panel data (pooled data), which combines time series data and cross section for 3 years, starting from 2011 to 2013 in Manufacturing Companies on the Indonesia Stock Exchange.

3.5. Data analysis method

The data analysis method used in this study is multiple linear regression analysis (multiple regression analysis) and residual regression. Testing for the first hypothesis uses multiple regression methods and for the second hypothesis uses residual regression analysis. The equation is as follows:

a. Model for the first hypothesis:

\[ Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \]

b. Model for the second hypothesis:

\[ Z = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \]

\[ |e| = b_0 + b_1Y \]

Information:

- \( b_0 \) = Constant
- \( b_1, b_2, b_3, b_4, b_5 \) = Regression Coefficient
- \( Y \) = Stock Return
- \( X_1 \) = Leverage
- \( X_2 \) = Liquidity
- \( X_3 \) = Profitability
- \( X_4 \) = Price Earnings Ratio
- \( e \) = Error
- \( |e| \) = Residual Regression

4. RESULT

The classic assumption test results which consist of a normality test show that through statistical tests it is proven that residual data is normally distributed, the results of multicollinearity tests indicate that there are no symptoms of multicolonility between independent variables in the regression model, while heteroscedasticity tests show that heteroscedasticity does not occur in the regression model. The autocorrelation test results also show that autocorrelation does not occur.

Hypothesis testing is done through F statistical tests and statistical tests t.
Through the results of the F statistical test, it is known that the F value is 3.049. When compared with the Ftable value with the number of observations (N) of 42 and the number of variables (k) of 4, the df value for numerator (N1) 3 and df value for the denominator (N2) 38 can be obtained Ftable value of 2.85. It can be concluded that proven Leverage, Liquidity, Profitability, Price Earning Ratio simultaneously have a significant effect on the Stock Return variable. The same result is also indicated by the sig value. <α (0.02 <0.05) so that the hypothesis which states that there is a significant effect of independent variables simultaneously on the dependent variable is acceptable.

Test results of significance of individual parameters (Test Statistic t), i.e.
1. Leverage variable has a value of sig.> A (0.588> 0.05). This shows that the Leverage variable partially does not affect the Stock Return variable.
2. Liquidity variable has a sig.> A value (0.602> 0.05). Thus it can be concluded that the liquidity variable partially does not affect the stock return variable.
3. Profitability variable has a sig.> A value (0.019 <0.05). Thus it can be concluded that the profitability variable partially has a significant effect on the stock return variable.
4. Variable Price Earning Ratio (PER) has a sig. <A (0.008 <0.05). Thus it can be concluded that the Price Earning Ratio (PER) variable partially has a significant effect on the Stock Return variable.

Based on the test results in table 2 the multiple regression equation is obtained as follows:

\[ Y = 18.880 + 2.445 X_1 - 0.823 X_2 - 0.158 X_3 - 0.189 X_4 \]

**Table 4.3**

**Determination Coefficient Testing (R^2)**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.428a</td>
<td>.183</td>
<td>.153</td>
<td>4.722</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), PER, LIQUIDITY, PROFITABILITY, LEVERAGE
b. Dependent Variable: STOCK RETURN

The results of the Determination Coefficient test (R^2) are known to be R value of 0.428, this indicates Leverage, Liquidity, Profitability, Price Earning Ratio as the independent variable has a strong relationship of 42.8% with the Stock Return variable as the dependent variable. Adjusted R Square value of 0.153 means that the Stock Return variable can only be explained by Leverage, Liquidity, Profitability, Price Earning Ratio by 15%, while the remaining 85% can be explained by other variables outside of this study.

5. CONCLUSIONS AND LIMITATIONS AND RECOMMENDATIONS

Based on the results of the research, the following conclusions are obtained:

1. Variables of Financial Ratios (Leverage, Liquidity, Profitability), Price Earning Ratio simultaneously has a significant effect on the Stock Return variable in Manufacturing Companies on the Indonesia Stock Exchange.
2. Leverage and Liquidity variables partially do not affect the Stock Return variable in Manufacturing Companies on the Indonesia Stock Exchange. Whereas Profitability Variables and Price Earning Ratio partially have a significant effect on the Stock Return variable in Manufacturing Companies on the Indonesia Stock Exchange.
3. Earning Per Share variable (moderating variable) will be able to strengthen Leverage, Liquidity, Profitability, Price Earning Ratio with Stock Return in Manufacturing Companies on the Indonesia Stock Exchange.

**Limitations and Recommendations for Research**

Limitation:
1. Researchers do not consider company-specific factors in this study, such as changes in dividend policy, stock offerings, and stock splits.
2. In a period of time, researchers limited the data used, namely the period of 2011, 2012 and 2013.
3. Within the boundaries of the object of research, researchers limit only those manufacturing companies listed on the Indonesia Stock Exchange.
4. In the limitation of financial ratio aspects, researchers only limit the three financial ratios, namely Leverage, Liquidity and Profitability only.
Recommendation:
1. The next researcher is to consider the changes in dividend policy, stock offer, stock split.
2. The next researcher is to add to the period of research.
3. The next researcher in order to broaden the scope of his research objects, is not limited to companies listed on the Indonesia Stock Exchange.
4. The next researcher is to add other financial ratio variables.

Research Weakness:
Based on the results of the Determination Coefficient Test (R2) Adjusted R Square value of 0.153 means that the Stock Return variable can only be explained by Leverage, Liquidity, Profitability, Price Earning Ratio by 15%, while the remaining 85% can be explained by other variables. this is caused by the selection of independent variables that are less accurate.

REFERENCE