The Influence of Profitability, Liquidity and Market Value on Stock Returns

Research to Mining Companies on Indonesia Stock Exchange from 2012 To 2016

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Abstract: This research purpose to prove the influence profitability, liquidity and market value to towards the stock return at mining companies listed on Indonesia Stock Exchange. This study consists of independent variables and dependent variables. The independent variables in this research are profitability, liquidity and market value, while the dependent variable in this research is stock return. The profitability variable is measured by Return on Assets (ROA), the liquidity variable measured by the Current Ratio (CR), the variable of market value measured by Price to Book Value (PBV) and Stock Return variable is measured with capital gain. This research design used quantitative research with descriptive study with verification method. The population in this research is mining companies listed on the Indonesia Stock Exchange (BEI) of 36 companies. The technique for collecting samples is based on purposive sampling to get 10 companies. Statistical analysis used in this research is multiple linear regression analysis with regression significance test (Test F) and significance test of regression coefficient (t test). F test results show that the regression model can be used to make conclusions that illustrate profitability, liquidity and market value to stock returns. The result of t test statistic shows that profitability and liquidity have no effect on stock return, while market value have positive effect to stock return.

1 INTRODUCTION

The main objective of investors to invest their funds in the capital market is to obtain a reward or return. Return by Margaretha (2011: 62) is "expected gains from investments." High return of stock will give a positive signal for market related to the level of profits earned from investing, the higher the stock return, the higher the demand of investors to the stock, but conversely the lower stock returns for investors, the demand will drop.

The mining sector is a driving sector of economy in Indonesia. Quoted from Indonesia investmen.com (2015), In 2008 the global financial crisis that caused commodity prices to decline so quickly. The financial crisis impacted the mining sector for commodity exports contribute more than 50% of Indonesia's total exports. In the 2nd half of 2009 until early 2011 coal prices rebounded sharply. The decline in global economic activity has reduced demand for coal, thus causing a decrease in coal prices since the beginning of 2011. It gives affect stock prices in the mining sector, which indirectly affect stock returns received by investors. Stock returns that are strongly influenced by the existence of the phenomenon is the value of capital gains. Stock returns in the form of capital gains in mining companies listed on the Stock Exchange from 2012 to 2015 is described in Table 1.

Table 1: Stock return in mining company from 2012 to 2015.

Code	Stock Return			
	2012	2013	2014	2015
ADRO	-0.10	-0,31	-0.05	-0.50
ARII	-0.01	-0.44	-0.47	-0.11
ATPK	-0.22	1.09	-0.23	-0.07
BORN	-0.35	-0.68	-0.71	0,00
BRAU	-0.53	-0.05	-0.66	0.30
EARTH	-0.73	-0.49	-0.73	-0.38
BYAN	-0.53	0.01	-0.22	0.18

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Code	Stock Return			
	2012	2013	2014	2015
GOD	-0.36	0,00	0,00	0,00
DOID	-0.77	-0.40	1.10	-0.72
GEMS	-0.13	-0.08	-0.08	-0.30

Source: Indonesia Stock Exchange (2017) (Data processing)

From table 1 obtained information that a lot of issuers who are in the mining sector had a negative return. Negative returns are called with capital loss. Capital loss occurs if the stock price this year is lower than last year's, which the capital loss be an indication of poor performance of the company. The emergence of a capital loss will result in reduced investor confidence to invest and make it possible for investors to shift investments in other listed companies are considered more profitable. Lack of interest of investors to invest in mining companies will decrease the amount of funds obtained from the mining sector, capital market, it will disruption to the company's operations and the worst effects of company bankruptcies.

Based on the presentation, it is necessary to study the factors of stock returns. By knowing the factors of stock returns, the company can prevent low stock returns. Resmi (2002: 280) stated that “there is one important factor that affects investors in investing namely financial performance." The financial performance can be measured by financial ratios.

Previous research on the effect of financial performance on stock return is research conducted by Parvati and Sudiartha (2016) in manufacturing company shows that profitability ratio, liquidity ratio, and market value ratio have positive and significant influence to stock return while leverage ratio has significant negative effect to return while research conducted by Raningsih and Son (2015) on food and beverage companies shows that profitability and leverage ratios have a positive effect on stock returns, liquidity ratios have a negative effect on stock returns, while the ratio of activity and firm size has no effect on stock return. Another study conducted by Akbar (2015) shows that Price Earnings Ratio (PER) and Debt to Equity Ratio (DER) have a negative effect on stock return, while Price Book Value (PBV) has a positive effect on stock return.

In this study researchers will focus the research on financial ratios. This is based on previous research where financial ratios have different effects on stock returns, thus motivating researchers to compare this research with previous research on different objects and years. In addition, financial ratios are a tool used in fundamental analysis techniques, where fundamental analysis is much taken into consideration by investors to invest in companies that fall into the blue-chip category, this is in line with the object of research used by researchers namely the mining sector. This study was conducted to determine how the influence of profitability, liquidity and market value to stock return.

2 LITERATURE REVIEW

2.1 Signalling Theory

Everything is done by the company containing the information. Information is an important element for investors and businessmen because the information will provide an overview of companies in the past and in the future. It is in line with the signaling theory or the theory of signaling. According Jogiyanto (2008: 392) "information published as an announcement will give a signal to investors in making investment decisions." The financial report is one of the signals given by the management to the owners as a form of accountability.

The signal given company can be a good (good news) and also be bad (bad news) for external parties. Announcement of the amount of stock returns can be considered as a good signal and may also be considered as a bad signal. Stock Return that generate capital gains will be received positively by market and increase investor confidence that the company has good prospects in the future. While the stock returns that result capital, loss will be considered as a bad signal to the market, because the company is considered to have poor performance and not a good prospect.

2.2 Stock Return

Stock Return defined as a return value of stock investment activities. Samson (2006: 291) states that "stock return is income expressed as a percentage of the initial capital investment." These advantages can be either dividend or capital gain (loss). Another opinion expressed by Margaretha (2011: 62) that "return is the expected profit from an investment that can be expressed in the currency or percentage." Stock Return is divided into two, namely are realization return and expected return. Return expectations is the expected return, while the actual return is the return that actually happened. In this study, researchers will use the actual stock returns. Actual stock returns generated from the difference stock price current year with the previous year, divided by the share price of the previous year. Actual stock returns also used by investors to determine the expected return in the future. The amount of actual stock returns or the actual return is calculated by:

$$R_{it} = \frac{\left(P_{it} - P_{(it-1)}\right)}{P_{(it-1)}}$$

(Ali, 2010: 71)

Information:
Ri: value capital gains i in period t

Pit: The closing price of the stock i in period t
Pit-1: The closing price of the stock i in period t-1 (previous)

Return have a direct relationship with the risk, the higher the return obtained, the higher the risk to be borne. Therefore, investors should really consider the risks in investing activities.

2.3 Profitability

Profitability related to profit or gain. The company's main purpose is to generate profit formed. According Harahap (2008: 219) "Profitability is the company's ability to profit through all available resources, sales, cash, assets, capital." Gitman (2009: 61) states "Profitability as a group, reviews these measures enable the analyst to evaluate the firm's profits with respect to a given level of sales, a certain level of assets, or the owner's investments. "It can be interpreted profitability is a group that is used to evaluate the company's profit in relation to sales, the value of assets or investment property.

Companies who have high profitability indicates the company has a good performance, so as to enhance the company's future prospects. It thus reinforced by the statement Hadi (2011: 135) "the better the profitability ratio, the better illustrate the ability of the high profitability of companies that eventually investors will earn a good return." Furthermore, Ang (1997: 33) states that "the greater the ROA shows better performance, since the greater the return value."

2.4 Liquidity

Liquidity is derived from the liquid or illiquid, which means easy to be liquefied. Definition of liquidity according Gitman (2009: 54) "Liquidity is ability to satisfy its short-term obligations." According Harahap (2008: 219) "Liquidity is the ability of the company completed all the short-term needs."

Companies are able to meet short-term obligations of the company can be said to be illiquid, and vice versa if the company is unable to meet its short-term obligations, the company is said to be illiquid. The company should have good liquidity, as liquidity will describe the company's ability to completed short-term obligations. With the expected high liquidity, the company is also able to provide a high stock returns. Thus, the opinion in accordance with the statement of Murhadi (2013:34) on the effect of liquidity on stock returns are "assets with high liquidity will provide the expected return is also high."

2.5 Market value

The market value by Azis (2015: 85) is "stock prices in the stock market at a time determined by the demand and supply of the stock price of market participants." According Sudana (2011: 24) "the ratio of market value is the performance appraisal shares of companies that have been traded in the capital market." Myers (2003: 286) states" the market value is the amount that investors are willing to pay for the shares of the firm. "

The market value describes the achievements of companies in the capital market. Good company is a company that has shares at a high price. It is an attraction for investors to invest because investors assume if shares purchased today will increase the price in the future, so that investors will have benefit from the difference between the purchase price shares at the current price the stock sold. According Tandelilin (2010: 51) "if the securities to increase the price, then the investor will get additional profit from the difference in prices that occurred." From the above it can be concluded that the market value will have an effect on stock returns. This is because the stock return is the difference between the current share price sold and stock price when purchased. The higher the stock price will lead to higher margin thus obtained stock returns greater.

3 METHODOLOGIES

The research design used descriptive and verification. Descriptive method used in this study to describe of profitability, liquidity, market value and stock returns in mining companies listed on the Stock Exchange in 2012-2016. While the verification method used in this study to test the effect profitability, liquidity and market value of the stock return in mining companies listed on the Stock Exchange in 2012-2016.

The independent variable of this research is profitability, liquidity and market value. The dependent variable used is return stock. The population in this study is the mining sector companies listed on the Indonesia Stock Exchange amounted 36 company. Sampling technique used in this research is purposive sampling with certain criteria and obtained a sample of 10 the company for five years from 2012-2016 so that the observation data in this research were 50 data.

4 RESULT AND DISCUSSION

4.1 The Influence Profitability on Stock Return in Mining Company Listed in Indonesia Stock Exchange from 2012 to 2016

ROA is the ratio between profit after tax of the company with total assets of the company at a certain period. ROA level is said to be healthy if they are above 9%. However, ROA conditions in mining companies listed on the Indonesia Stock Exchange in 2012 until 2016 can be said to be unhealthy, because many companies have value ROA below 9%. The results of multiple linear regression obtained regression coefficient profitability have value -0.009872. This suggests that no effect profitability on stock returns. ROA coefficient value -0.009872 means that any increase in the profitability of one per cent, it will be followed by decrease in stock returns amounted to 0.009872.

However, after the regression coefficient significance test (t test), the t value of profitability is -0.573128 with probability equal to 0.5700. Because the value of t arithmetic ≤ t table, then profitability has no effect on stock returns in mining companies listed on the Indonesia Stock Exchange in 2012-2016. It is known that significant value is greater than the expected significant level, so it is not significant because 57.00% over the expected provision of 5%. This suggests that the increase or decrease in profitability does not affect on stock returns.

Rejection of this hypothesis can be seen because many companies are experiencing unhealthy profitability during the period 2012 to 2016. It is said is not healthy because the average value of ROA mining company during 2012 through 2016 were below the limit of minimum standards that have been established which is 9%. Companies that suffered losses would cause the company ROA value is negative, this is because the value of ROA is calculated by comparing the profit after tax to total assets in the company.

The research data also shows the movement of the ROA value is inversely proportional to the movement of the stock return, the higher average value of ROA, the average stock return is lower. Based on the results of data processing discovered that the average ROA in 2012 amounted to 7.61 while the average stock return in 2012 amounted to -0.29, so even in 2013 when the average ROA declined to 1.99, the mean average stock returns increased to 0.05. ROA company will give a negative signal to the market, which will be received by investors. Negative ROA is an indication that the company has a bad prospect in the future, so that it will be accepted as bad information or bad news by investors.

The results of this study are not consistent with the theory of reference stated by Hadi (2011) which states that the better the profitability ratio, the better illustrate the ability of the high profitability of companies that eventually investors will earn a good return. Furthermore, Ang (1997) also argues that the greater the ROA shows better performance, since the greater the return value.

4.2 The Influence of Liquidity on Stock Return in Mining Company Listed in Indonesia Stock Exchange from 2012 to 2016

Based on research data that has been processed can be seen that the value of the Current Ratio mining company located in unsanitary conditions, this is because the current ratio minimum value the company is 2. The result of multiple linear regression testing regression coefficient values obtained -0.141415, this have meaning any increase in liquidity by one percent, it will be followed by a decrease in stock returns 0.141415. However, after the regression coefficient significance test (t test), obtained t value liquidity variables is -0.269642 with probability 0.7889. Because the value of t arithmetic ≤ t table, then liquidity has no effect on stock returns. Its mean that increase or decrease of liquidity level has no effect on the increase or decrease in stock returns. Liquidity significance value is greater than the expected significant level, meaning there is significant due to mistakes by 78.89% over the expected conditions.

Rejection of this hypothesis can be seen from the variable conditions of liquidity and stock returns in 2012-2016. The average of liquidity mining companies in 2012 amounted to 2.28 while the average stock return of -0.29. In 2013 the average liquidity decreased to 1.96 while stock returns increased to 0.05. So even in 2014 and 2015, the movement of liquidity is not in line with the movement of the stock return. In addition, the rejection of the hypothesis due to the company's liquidity level information is not taken into consideration by investors in investing.

The results of this study are not consistent with the theory of reference which states that assets with high liquidity will provide a high expected return. In addition, Rahardjo (2006) also states that the criteria for companies that have a strong financial position is able to meet the obligations to outside parties in a timely manner. The higher a company's ability to meet its obligations, then the company can be said to be strong in financial position and increase the confidence of investors to invest.

4.3 The Influence of Market Value on Stock Return in Mining Companies Listed in Indonesia Stock Exchange from 2012 to 2016

The market value is ability investors to pay per one share. The market value is the description of the company's achievements in the capital market. The market value in this study were measured with a Price to Book Value (PBV). PBV is the ratio calculated comparing between the market price of shares and book value. The increase in the stock price will be made either by the investor information, so it can increase the demand of investment. This indicates that the market value will have positive influence on stock returns.

The test results of multiple linear regression obtained regression coefficient value of the market value is 0.900131. 0.900131 coefficient value means that the market value has increased one, then stock returns will increase by 0.900131, and vice versa if the market value has decreased once the stock returns will also be decreased by 0.900131. After testing the significance of regression coefficients (t test), the value of t arithmetic market value is 5.831465 with probability equal to 0.0000. Because the value of t count> t table, then the market value positive effect on stock returns. Significance value less than the market value of the expected significant level, so that means significant because mistakes zero percent under the provisions of 5%.

The results of this study indicate that the market value of a positive effect on returns, meaning each an increasing rate of the stock market stock returns received by investors are increasingly rising. The positive influence shows that the market value has a direct relationship with stock returns. On average PBV for four years from 2012 to 2015 decline. However, the average PBV values can still be said to be good, it is because the average value of PBV shows the value of more than 1. During the years 2012 to 2016, the average PBV highest value achieved in 2016 with an average value of 1.97 PBV.

This study is in line with the theory of reference stated by Brigham and Houston (2010) which states that the company viewed favorably by investors is sold with a high MBV. The higher MBV, the higher the investors' assessment of the company. Ang (1997) also argues that the higher the value, the higher PBV company was appraised by investors compared to the funds invested in the company. Additionally, Tandelilin (2010) also revealed a similar security that if the price increases, then the investor will receive additional profit from the difference in prices that occurred.

5 CONCULUSION

The conclusions in this research are the profitability in the mining company listed on the Indonesia Stock Exchange in 2012-2016 are in the unhealthy conditions. Liquidity in mining companies listed on the Indonesia Stock Exchange in 2012-2016 are in a healthy condition. The market value of mining companies listed on the Indonesia Stock Exchange in 2012-2016 are in a healthy condition.

Stock Return in mining companies listed on the Indonesia Stock Exchange in 2012-2016 are in a pretty healthy state. Profitability has no effect on the Stock Return in Mining Company listed on the Indonesia Stock Exchange in 2012-2016. Liquidity has no effect on the Stock Return in Mining Company listed on the Indonesia Stock Exchange in 2012-2016. The market value has positive influence on Stock Return in Mining Company listed on the Indonesia Stock Exchange in 2012-2016.

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