Determinant Stock Return Through Debt To DER of Automotif Company In Indonesia

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Abstract. This research was conducted for determine the effect of EPS on Stock Return through the DER in the Automotive company listed on the Indonesia Stock Exchange (IDX) for the 2016 – 2019 period. This research Using 48 samples of financial statements and tests are carried out using path analysis. The test results show that EPS has a significant influence on the DER. EPS has a significant influence on Stock Return. DER has a significant influence on Stock Return. DER is not able to mediate the relationship between EPS on stock returns.

Keyword: Stock Return,DER, EPS, Automotive Company

1 Introduction

Indonesia is a priority for Toyota's automotive business development and investment among developing countries due to its high growth potential and market potential. Until now, Indonesia as the second country with the largest industrial manufacturing economy in ASEAN is competing with Malaysia and Thailand for the Global Automotive Market. For automotive companies listed on the Indonesian stock exchange, the stock price is a reflection of the value of their company, and the company must maintain its performance to be able to attract investors. As an investor when making an investment, what is expected is a return from that investment. Stock return seen by investors who will invest their shares in the company. The profit earned is directly proportional to the risk received. If the risk is high, then the return received is also high, otherwise if the return received is low, then the risk faced is also low.

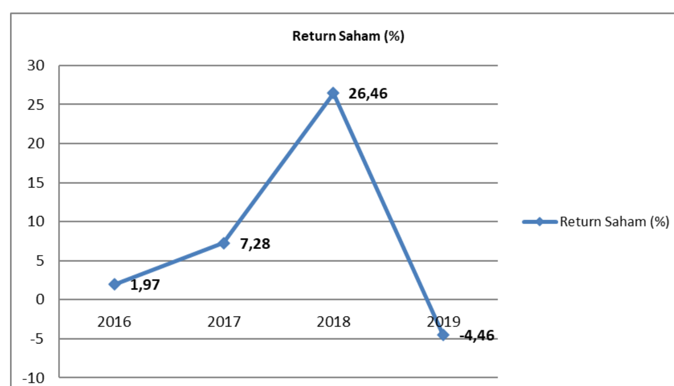

Fig 1: Stcok return Of Automotive Company

Based on Figure 1 it shows that “Stock returns in Automotive and component companies for the period 2016 – 2018 have increased every year while experiencing a drastic decline in 2019. This can be seen from 2016 at 1.97%. In 2017 it increased by 7.28%, continued in 2018 it increased by 26.46% and in 2019 it experienced a drastic decrease of -4.46%. There are various factors that influence the increase and decrease in stock prices, including macro factors and fundamental factors. For investors who do fundamental factors in the company, they use financial statements because it is information that is easy to obtain than other information. Financial statement information describes the development of the company [12]. Factors that can cause stock prices to rise and fall are influenced by internal factors and external factors. Internal factors are derived from performance data from the company, while external factors can come from macroeconomics and corporate actions which can be considered negative or positive by investors. One that can affect stock prices is from earnings per share and debt used by the company. So the purpose of this study is to determine the effect of stock prices through the debt to equity ratio. The debt equity ratio was chosen because the use of debt can affect the company's performance if it is not able to manage debt properly.

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2 Literature Review

2.1 Stock Return

Return is the profit obtained by a company, individual and institution from the investment policy that has been carried out [10]. Stock returns reflected the companies performance. Because it can expected return and risk in the future. The return expected by investors in the future is called the expected return. Expected Return is a return that has the property not yet occurred. Expectations are usually used as the basis for technical analysis, namely using past stock price movement patterns to predict future stock prices. Financial performance that directly affects stock returns is profitability ratio, solvability ratio, activity ratio, liquidity ratio, market ratio.

Stock return can be measured:

$$\text{Stock Return} = \frac{Pt - (Pt\text{-}1)}{Pt\text{-}1}$$

a. Relationship EPS and DER

The form of giving benefits given to shareholders from each share owned is the meaning of EPS (Earning per share) [2]. The company is able to generate large profits per share if the EPS is also large. Companies that can generate large profits with a slow growth rate will have a low debt ratio when compared to the industry average. This is in line with research by [6] which states that there is a "significant negative effect of Earning Per Share (EPS) on the Debt to Equity Ratio (DER)" meaning that the higher the Earning Per Share (EPS), the lower the Debt to Equity Ratio. (DER).

b. Relationship EPS and Stock Return

EPS is net income per share outstanding during a certain period. The value of EPS is used as an indicator for the company's ability to increase the value of the company. So investors usually see well-established companies because established companies tend to have high EPS [14]. So it can be said that the company's stock price increases, the higher the stock returns that investors will get. If the EPS value increases, the stock price will increase so that the stock return will also increase. This is supported by research by [1] which show that Earning per share has a positive influence on stock returns.

c. Relationship DER and Stock Return

Debt to Equity ratio (DER) is a debt ratio that shows the extent to which the owner's capital can cover debts to outsiders. Investors avoid a high DER value because it reflects the company's high risk as well [5]. The higher the DER, the greater the interest expense that must be paid, besides the higher the DER the lower the stock return because the higher the debt, which indicates the greater the interest expense and reduced profits [11]. This can reduce shareholder rights (in the form of dividends), also lead to reduced investor interest in company shares because the rate of return is getting smaller

d. Relationship EPS to Stock Return Through DER

The ability of a company to earn a profit within a certain time by using the company's resources can be measured using the Profitability Ratio. Profitability ratio used in this study is Earning per share (EPS). Earning per share (EPS) is used as an indicator of how to measure the success of a company to achieve profits for shareholders. [8]. Companies that are said to be successful and can generate large profits but with a slow growth rate will also have a low debt ratio. This statement is in accordance with the research of [6] where there is a significant negative effect of Earning Per Share (EPS) on the Debt to Equity Ratio (DER), meaning that the higher the EPS, the lower the DER. So that companies that use less debt when obtaining high profits, prefer to use retained earnings rather than debt or owned capital in funding the company. DER also has a negative relationship to stock returns where this explanation is in line with research conducted by [1][3] whose research results show a significant negative effect of Debt to Equity Ratio (DER) on stock returns.

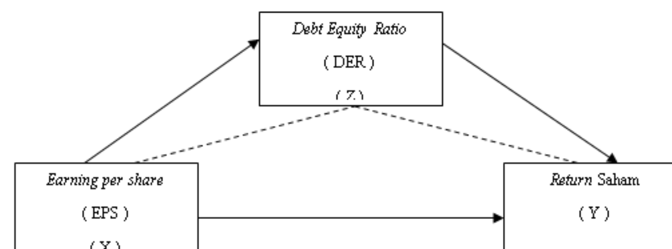

Figure 2 Conceptual Framework

3 Method

This research use a quantitative research. The population used in this study are automotive companies listed on the Indonesian stock exchange. The sampling technique used is a saturated sample by using the entire existing population. The research period is in 2016-2019. The data analysis technique used is path analysis.

4 Discussion

4.1 Result of Partial Least Square

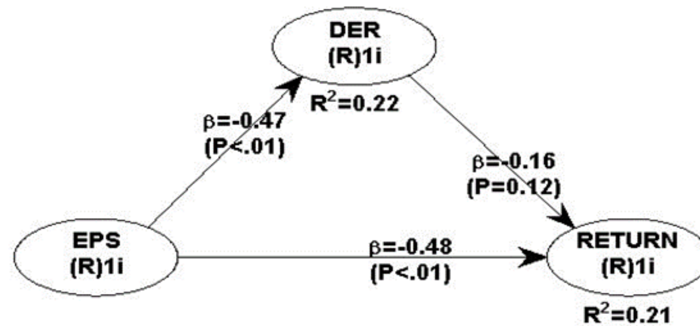

Fig 3 Result Partial Least Square

Z = Bx + e .... (Persamaan 1)
DER = -0,47 EPS + e .... (Persamaan 1)

The EPS coefficient value (X) has a negative value to DER (Z), which means that if EPS increases, the DER value of a company tends to decrease.

Y = β X + β Z + β X . β Z + e .... (Persamaan 2)
Return = -0,48 EPS + -0,16 DER + -0,47 EPS. -0,16 DER + e ....(Persamaan 2)

The value of the EPS coefficient (X) has a negative value on stock returns (Y) so it can be said that if the EPS value increases, the stock return value will tend to decrease. The DER coefficient value (Z) has a negative value on stock return (Y), which means that if the DER value increases, the stock return (Y) value of a company tends to decrease.

a. Godness Of Fit

The test results from Godness Of Fit :

Table 1 ***Godness of fit***

No.	Model Fit	Koefisien	*P-Value*	Description
1.	*Average Path Coefficient (APC)*	0,369	0,001<0,05	Signifikant
2.	*Average R-Square (ARS)*	0,216	0,027<0,05	Signifikant
3.	*Average Variance Inflation Factor (AVIF)*	1,082 < 5		Accepted

The estimation result of direct effect and indirect effect coefficient Average Path Coefficient (APC) is 0.369 and has a P-value of 0.001 which means it is significant. The coefficient of Average R-Square (ARS) in the estimation results of direct and indirect effects is also significant with a coefficient value of 0.216 and a P-value of 0.027. The last fit indicator is Average Variance Inflation (AVIF) with a coefficient value of 1.082. These results indicate that the Godness of fit criteria have been met, namely the Average Path Coefficient (APC) and Average R-Square (ARS) have a significant value and the Average Variance Inflation Factor (AVIF) has a coefficient value of less than 5. So it can be concluded that the requirements for test the accepted mediation model.

b. Interpretation

Relationship EPS and DER

The results of the tests that have been carried out show that EPS has a significant and negative relationship towards the DER. These results are in accordance with the hypothesis which states that there is an effect of EPS on DER. The test results in a negative direction indicate the higher the Earning per share value, the lower the DER value. Earning per share on the DER which has a negative relationship means that the company uses less debt

when obtaining high profits so that the company reduces the need for funding from outside the company [13]. This is related to Packing order theory which states that managers prefer internal funding to external funding [13]. In general, companies prefer the income they receive to be used as the main source of funding for investment, but companies will issue other ways of funding, namely using new debt and then issuing new shares if the company's internal sources are not sufficient. This research is in line with research conducted by [6] which suggests that EPS has a negative influence on the DER.

Relationship EPS and Stock Return

The test results show that EPS has a negative and significant relationship to stock returns. Thus, in line with the hypothesis which states that Earnings per share (EPS) has an effect on stock returns. The negative relationship Earning per share (EPS) on stock returns shows the higher the EPS value, the lower the stock return value and vice versa. [6] The level of Earning per share (EPS) in addition to depending on the company's decisions. The form of investment or investment decisions also depends on the level of efficiency in the use of company assets. The negative relationship EPS on stock returns shows that the company's management is less efficient so that investors judge the company's performance is not good and causes the stock price to fall. In addition, it can be said that the increase in the amount of money (rupiah) generated from each share of ordinary shares in circulation does not necessarily mean that the stock return received will also increase because of other factors that affect stock returns, namely fundamental factors, market factors and macro factors. Fundamental factors are factors related to the performance of the issuer company, market factors are factors related to stock performance, while macro factors are factors that influence locally on an agency object. The results of this study are in line with research conducted by Mujati & Dzulqodah (2016) which states that Earning per share (EPS) has a negative influence on stock returns.

Relationship DER and Stock Return

The test results show that the DER has a negative and significant relationship with stock returns. So it is proven and in accordance with the hypothesis which states that the Debt to Equity Ratio (DER) has an effect on Stock Return. The direction of the negative relationship shows the high value of DER, it will be inversely proportional to the return that will be received by investors because it indicates the company's debt is huge. The results of this research in accordance with the theory put forward by [13] where the use of debt that is greater than its own capital will have an impact on the value of the company. A high DER shows the dependence of the company's capital on outside parties so that the company's burden is getting heavier. If the company bears the burden of its own debt compared to the capital owned, it will reduce the company's stock price. Research conducted by [1] [9] shows results which state that there is a negative influence of DER on stock returns.

Relationship EPS to Stock Return Through DER

EPS mediated by the Debt to Equity Ratio (DER) on stock returns shows a negative relationship and the t-count value is smaller than the t-table value so it can be concluded that the DER ratio is not capable of mediate between EPS on stock returns. The higher the profit received by the shareholders, the lower the need for funding from outside the company, so the lower the debt incurred. The amount of the company's net profit distributed to shareholders is indicated by the Earnings per share ratio. Stock return is the profit obtained from the investor's share ownership on the investment made. Meanwhile, DER is the ratio of capital managers used to finance businesses with loans provided by shareholders [4]. The capital manager is not able to finance the business being run because the profits generated by the shareholders are not distributed directly but are used for reinvestment.

5 Acknowledgement

The limitation in this study is the research period that can be updated for further research

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