Analysis of Stock Return in View of Liquidity And Profitability

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Abstract. Investors buy shares intending to get a profit or return on the investment. Increasing corporate profitability can increase prosperity and prosperous ownership. The approach used in this research is quantitative. The quantitative approach emphasizes testing theories by measuring research variables with numbers and analyzing data using statistical procedures. The results of the tests that have been done show that CR has a significant effect on stock returns with a significance level or p-value of 0.000 <0.05. A high CR value indicates many current assets owned by a company and can signal that high liquidity guarantees the availability of funds for investor dividends thereby increasing share prices. ROA has a significant effect on stock returns. This situation indicates that high profits will attract investors to buy company shares. The results of the analytic test show that the significance value of the subtest for ROA is 0.0000 and <0.05. A high ROA value indicates an increase in performance due to higher returns. The level of ROA depends on management's control over the company's assets, which reflects the efficiency of the company's operations. The higher the ROA, the more efficient the company is. It shows that the more efficient the company is, the higher its ability to generate profits, thus affecting the increase in firm value.

Keywords: Liquidity, Profitability, Stock Return

1. Introduction

A growing company cannot be separated from its original goal, increasing its profits. Increasing the profitability of a corporation can increase its prosperity and prosperous ownership. Strong cash allocations show healthy corporate financial health. Investment is one of the main ways to increase the ability to develop and preserve wealth. Investment is a pledge to invest in the capital market to achieve high returns but certain risks, certain levels of returns but small risks.[1]

The idea of return is the total profit an investor receives from an investment. Return on shares is the shareholders who receive income from their investment in the company. Stock returns can be separated into 2 types, actual returns, and anticipated returns.[2] Returns that have been realized and are calculated using data from the past are known as realized returns. Analyzing a company's success and predicting future risks and rewards depend on realized returns. On the other hand, a predicted return is a return that is expected to occur in the future but is still unknown.

There are several ways for companies to attract investors and boost their share price, including analyzing the elements that drive increased stock returns. Return on shares is the result

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of the investment.[2] Stock returns are calculated by taking the price difference between today's stock price and the previous period and dividing that number by the previous stock price.

One of the factors that influences stock returns is the liquidity ratio, which demonstrates the company's capacity to promptly fulfill short-term financial commitments.[3] Liquidity demonstrates the company's capacity to utilize its assets to meet its short-term obligations. The money position that can be gotten to right now should be more noteworthy than the ongoing obligation so the association generally stays fluid.[3] The current ratio is used as an indicator to calculate the liquidity ratio for this research because the current ratio compares current assets with current liabilities, so it is considered significant, especially for short-term creditors.

The second element that affects stock returns is profit, showing the company's ability to make profits from the assets used. Profitability has a beneficial effect on stock returns because increased company income increases stock returns. A company must be profitable to carry out its operations. If the company's prospects are good, then the stock price will increase and expand the stock return of the company. The extent to which a company can increase its profitability is one of the main factors considered when assessing a company's potential in the coming years. If the company's prospects are favorable, stock prices will increase, and stock returns will increase.

The third element that affects stock returns is market value, which shows the market's assessment of the company's financial condition or measures management's capacity to produce a market value that exceeds investment costs. Importantly, the success of a company can also be judged by its capacity to increase its market value. Strong market values have a significant impact on the prospects of the union. Investors are interested in investing in the company. High market value shows investors that a company has extraordinary performance [4]. Comparison of stock market prices, as well as the financial status of companies, reveals aspects of market valuation. Price to Book Value (PBV) is a financial ratio that can be used to assess whether a stock is worth buying or not. The greater the PBV, the higher the valuation of earnings per share that investors place on the stock price. In conclusion, a high PBV leads to a higher stock return [5].

Companies listed on the Indonesia Stock Exchange are required to be able to compete effectively with other business actors in their industry in order to meet their needs because industry competition is becoming increasingly difficult in the food and beverage sector in Indonesia. purposes for well-being and profit. Given that food and drink are still a priority, this company in the food and beverage industry provides the community with the food and drink it needs. Businesses need a competitive advantage of some kind to succeed and stay in business in the face of intense competition.

Another food and beverage phenomenon are food producer PT Sentra Food Indonesia Tbk, a sausage company which experienced a decrease in total revenue of between 25 percent and 50 percent while net profit fell by more than 75 percent for the period ending June 30, 2020, compared to June 30, 2019, This resulted in dismissing 5 employees, bringing the current total to 224 employees. In addition, the company has also cut the salaries of up to 50 employees. The company currently has short-term debt that will mature in the amount of IDR 10 billion. Management estimates that covid 19 will make the company fulfill its obligations.

To maintain business continuity and remain competitive with other businesses, companies must be able to develop, maintain and improve their performance.

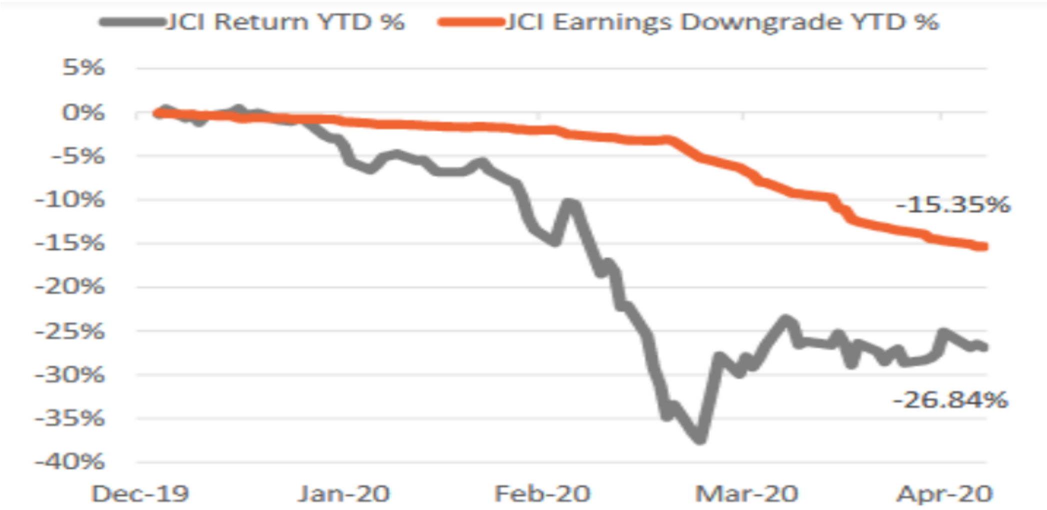

Fig. 1.1.
Graph of JCI Movement and Expectations of YTD Profit Growth for 2020
Source: https://www.bareksa.com/ (2022)

Graph 1.1 shows that there has been a change in the stock price chart. The stock price chart has tended to decline, with a severe fall from December 2019 to May 2020. This will result in a poor share price, which will undermine the company's ability to attract investors who are willing to donate cash. Based on the graph, the company's assumption that the stock price will continue to rise is inconsistent.

The authors are interested in learning how liquidity, profitability, and market value affect stock returns on the Indonesia Stock Exchange (IDX), as it is known from the description above that there are research gaps and issues in this sector.

2. Method

This study employs a quantitative approach. The quantitative approach places an emphasis on putting theories to the test by using numbers to measure research variables and statistical methods to analyze data [14]. According to the research's explanation, this study is causality-based associative research. According to Sugiyono, research that explains the effect of the independent variables on the dependent variable is called research that is associative with the type of causality [14].

In this study, a nonprobability technique was used for sampling. Sugiyono says that non-probability sampling is a method of sampling that doesn't give everyone in the population equal chances or opportunities to be chosen as a sample [15]. While purposive sampling is the approach taken in this sampling. Twelve manufacturing businesses that are listed on the Indonesia Stock Exchange served as the study's samples.

Using straightforward linear regression statistics for quantitative analysis. A simple regression analysis is one that examines the relationship between one variable Y (earnings response) and another variable X (income smoothing and firm size). The SPSS 25 program, a computer program that processes statistical data, was used to carry out this straightforward method of regression analysis. [16].

Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	.781	.408		1.915	.065
Liquidity	.646	.156	.600	4.150	.000
Profitability	.727	.133	.747	5.485	.000

a. Dependent Variable: Return Saham

3. Result and Discussion

3.1 Result

The effect of each independent variable (partially) on the dependent variable can be determined using simple linear regression analysis. The study looks at how profitability and liquidity affect stock returns. The investigation is handled utilizing a factual information handling PC program.

Descriptive statistics

Variable	Mean	Maximum	Minimum	St. Dev
Y	35,76%	96,43%	02,54%	0,29
X1	81,19%	340,92%	07,67%	0,74
X2	11,49%	25,27%	00,94%	0,06

Information	
Y (**Stock *Return***)	Stock returns are calculated using historical data, and realized returns are returns that have actually occurred.
X1 (**Liquidity**)	The liquidity ratio is in the form of a cash ratio, which describes the company's ability to meet current liabilities.
X2 (**Profitability**)	The ability of a company to earn a net profit.

Based on the regression results in the table above, the multiple linear regression equation is obtained as follows

$$Y= 0{,}781+0{,}646X1+0{,}727X2+0{,}558X3+e$$

Constants

Based on the regression results in table 4.5, the constant (a) in the equation of the results of this study is 0.781. It shows that if liquidity, ROA, and firm value are 0, the stock return will increase by 0.781.

Liquidity regression coefficient

The liquidity variable's regression coefficient is 0.646, according to table 4.5's results. If the other independent variables have a fixed value, it demonstrates that stock returns will increase by 0.646 for every one unit increase in liquidity.

ROA regression coefficient

In view of the relapse brings about table 4.5, the relapse coefficient for the ROA variable is 0.727. If the other independent variables have a fixed value, it demonstrates that stock returns will increase by 0.727 for every one unit increase in ROA.

Using both non-standardized and standardized coefficients, the t-test statistic is used to examine the coefficients of the independent variables to determine whether or not each has a significant impact on the dependent variable.

The Effect of Liquidity on Stock Returns

The basic t-test for deciding is if the significance value is <0.05 or t count > t table, then there is an effect of variable X on Y. If the significance value is > 0.05 or t count <t table, then there is no effect of variable X on variable Y. Based on the t-test results of Table 4.6 the significance value of X1 or liquidity on stock returns is 0.000 with a t-count value of 0.600. Thus. H_1 is accepted, which means that the liquidity variable has a positive effect on the stock return variable. The significance value of 0.000 shows that the Liquidity variable is one of the most significant variables among the three independent variables used in this study.

Effect of ROA on Stock Returns

With a t-count of 0.747, the effect of the variable X2 or ROA on stock returns has a significance level of 0.000. As a result, H2 is accepted, indicating that stock returns are significantly influenced by the ROA variable.

The significance value of ROA on Stock Return is 0.000 indicating that the significance value is very high, equal to the significant value of Liquidity. Thus, ROA becomes the most significant variable influencing stock returns in this study.

Determination Coefficient Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892[a]	.795	.776	.37422

a. Predictors: (Constant), Market Value, Profitability, Liquidity

According to the table above, the results of the test for the coefficient of determination with an Adjusted R Square value of 0.795 indicate that the independent variables account for 79.5% of the variation in explaining the dependent variable, while other variables outside of this research model account for the remaining 20.5%.

3.2 Discussion

3.2.1 The Effect of Liquidity on Stock Returns

Munawir says that the current ratio (CR), which compares the number of current assets and current liabilities, is the most common ratio used to analyze a company's cash ratio. The value of current assets that can be used to meet the number of current liabilities is shown by this ratio. Observationally, CR can increment stock returns. The more liquid a company is, the more it can give a signal to investors to make buying and selling actions [17]. Capital market investors interpret the IPO of companies with high CR as not having problems with short-term liabilities so the information obtained when investing in companies with high CR is good for capital market issuers and public information. It is known from the tests that have been carried out that CR has a significant impact on stock returns with a significance level or p-value of 0.000 0.05 or less. Acceptance is given to the hypothesis that stock returns are significantly influenced by liquidity. A company with a high CR value has a lot of current assets and may be able to guarantee the availability of funds for investor dividends, thereby driving up share prices.

This study's findings are consistent with Alexander's findings, which state that if a company's current assets increase, it will be able to pay off its short-term obligations, which will later increase the company's profitability and influence stock returns [18], [19].

3.2.2 The Effect of ROA on Stock Returns

The findings demonstrated that ROA significantly influences stock returns. This situation suggests that investors will purchase company shares if there are high profits. The analytic test reveals that the subtest's significance levels for ROA are 0.0000 and 0.05. Therefore, the findings demonstrate that the second hypothesis is valid. This indicates that ROA significantly boosts firm value. A rise in performance as a result of higher returns is indicated by a high ROA value. The degree of ROA relies upon the board's command over the organization's resources, which mirrors the productivity of the organization's tasks. The company is more productive the more ROA it has. It shows that the more effective the organization is, the higher its capacity to produce benefits, in this way influencing the expansion in firm worth.

These findings support the research conducted by Purba, that the value of ROA has a significant effect on stock returns. [10]

4. Closing

Based on the research results and conclusions that have been obtained, it is expected that:

1. Investors and company management should optimize liquidity, profitability, and market value because these four variables have a positive and significant relationship with stock returns

2. For the following scientist, the impact of liquidity, benefit, and market esteem on stock returns is 79.5%, while the leftover 20.5% is made sense of by different factors outside this exploration model. As a result, it is suggested that additional variables like leverage, capital structure, firm value, company size, and solvency, among others, be investigated by future researchers. that can achieve the 20% value, maximizing stock returns.
3. Researchers also need to add a longer research period so that the results are more generalizable and add one or more variables that influence stock returns.

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