

# THE EFFECT OF RETURN ON ASSETS, RETURN ON EQUITY, FIRM SIZE AND OPERATING CASH FLOW ON STOCK RETURNS IN FOOD AND BEVERAGE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE (IDX)

**Kiki Nurfadhila**

Accounting Study Program, Institut Teknologi dan Bisnis Asia, Indonesia

**Ditya Wardana**

Institut Teknologi dan Bisnis Asia, Indonesia

**Email Correspondence:** kikinurfadhila220@gmail.com

## ABSTRACT

*This study aims to determine the effect of Return On Assets, Return On Equity, Firm Size and Operating Cash Flow on Stock Returns listed on the Indonesia Stock Exchange (IDX). This research was conducted on companies listed on the Indonesia Stock Exchange for the period 2018-2020. The sampling technique used in this research is purposive sampling technique. The sample of this study were 29 companies. The data used is secondary data and the data analysis technique used is multiple linear regression analysis with the help of the Statistical Product and Service Solution (SPSS) version 25.0 program to test the effect of the independent variables on the dependent variable. Based on the results of the research analysis, it was found that Return on Equity, Firm size, and Operating Cash Flow had a positive and significant effect on Stock Return, while Return on Assets had no effect on Stock Return.*

**KEYWORDS:** Return On Assets, Return On Equity, Firm Size, Operating Cash Flow, Stock Return



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## Introduction

Each company has its own ability in terms of building and continuing its business. The public can assess how the company's ability to generate operating cash flow and accounting profit can be seen from the performance of the company's statements.

Because this industrial sector plays an important role among the wider community in meeting their daily needs, food and beverage sub-sector companies are one of the industrial sector categories that have quite good prospects and tend to be in demand by investors as one of their investment targets. (Sudjarni, 2017)



Source: Central Bureau of Statistics

The Central Statistics Agency (BPS) stated that, gross domestic product (GDP) on the basis of constant prices (ADHK) of the food and beverage industry (mamin) amounted to IDR 775.1 trillion in 2021. This value grew by 2.54% compared to the previous year (year on year / yoy) yang amounting to Rp755.91 trillion. Food and beverage sub-sector companies are still surviving even though faced with the Covid-19 pandemic in Indonesia. Based on data from the Ministry of Investment/Investment Coordinating Board (BKPM) The value of investment in the beverage industry has also become the fifth largest of all existing sectors, the resilience of the food and beverage industry can also be seen from the amount of investment they can accommodate throughout the first semester of 2021. this is what makes the food and beverage sub-sector company become one of the sectors that rises so that it is in demand by investors in making investments in the hope of getting a return on shares.

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According to Brigham and Houston (2013), signal theory is an action taken by the management of a company to provide clues to investors about how management assesses the prospects of the company. Companies with very bright prospects prefer not to fund through new stock offerings, while companies with poor prospects do like funding with outside equities. The information in the financial statements is a company signal to stakeholders that can influence decision making. The better the kinerja of the company which is reflected in the ratios of the financial statements, the more interested the investor is to invest in his shares. By providing the company's financial information in the form of financial statements, it will encourage investors to a better prospect, this can be seen from the completeness of the financial statements issued by the company. In addition, management's decision to estimate profits properly in the future and be informed to investors can lead the company in a much better direction.

With the increase in the stock price, the return on shares of the company concerned will also increase. The return on shares itself is the expectation for investors from funds invested through stocks, where the result is in the form of yield and capital gains (losses) (Hartono, 2010). According to Halim (2005) current income and capital gains are elements of stock returns.

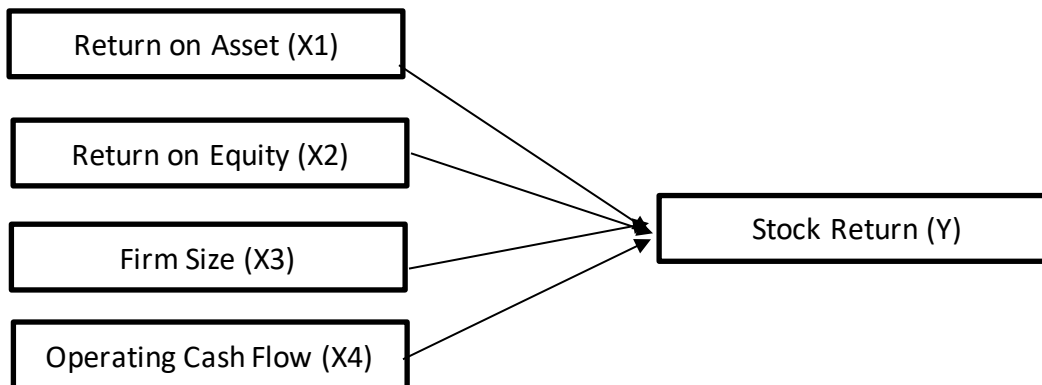
Based on previous research, the variables that affect stock returns are return on assets (ROA), return on equity (ROE), Firm size, operating cash flow. Return on assets (ROA) is a form of profitability ratio intended to measure a company's ability to overall funds invested in activities used for the company's operating activities with the aim of making a profit by utilizing its assets. Based on research conducted by (Basalama et al., 2015), (Putra & Kindangen, 2016), (Gunadi & Kesuma, 2015). (Febrion, 2018) shows that return on assets (ROA) has no significant effect on returnsn shares.

The high return on equity (ROE) reflects that the company managed to make a profit from its own capital. The increase in Return on Equity (ROE) will also boost the company's selling value which has an impact on the stock price, so this hal is correlated with an increase in stock returns. In the research conducted by (Nurhayani. A & Mandala, 2016), (Carlo, 2014), shows that return on equity (ROE) has a positive and significant effect on stock returns. However, according to (Oktofia et al., 2016) return on equity (ROE) does not have a significant effect on stock returns. According to Devi (2010) securities of small companies may be less marketable so they require pricing in such a way that investors obtainhasil that provides higher returns. Based on research (Nurhayani. A & Mandala, 2016) states that the size of the company has a positive and significant effect on stock returns.

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Operating cash flow is a statement of cash inflows and outflows from the company for one period. Ikhsan and Teddy (2009) stated that the cash flow statement provides useful information regarding the company's ability to generate operating cash, maintain and expand its operating capacity to meet its financial obligations and pay dividends. One of the studies that tested the relationship between operating cash flow and stock returns was conducted by (Nurhayani. A & Mandala, 2016) where they stated that operating cash flow has a significant influence on stock returns. Based on the background and also the inconsistency of the results from previous studies, the researcher will re-examine the factors that affect stock returns because there are differences in results in previous studies. The factors used in this study are return on assets (ROA), return on equity (ROE), Firm size, operating cash flow. Based on this, this study is entitled "The Effect of Return on Assets, Return on Equity, Firm Size, and Operating Cash Flow on Stock Returns in Companies listed on the Indonesia Stock Exchange (IDX)". The purpose of this study is to determine and analyze the effect of return on assets (ROA), return on equity (ROE), Firm size, operating cash flow on stock returns. Based on the above background, the conceptual framework can be described as follows:

**Figure 1. Conceptual Framework**



## Effect of Return on Assets on Stock Returns

ROA is the company's ability to utilize its assets to make a profit. The greater the value of return on assets, the better the company's performance, because the rate of return on investment is getting bigger. Return on Asset measures a company's ability to generate profits based on assets owned in a certain period of time. Based on the results of research by Handayati & Zulyanti (2018), Erari (2014), Mayuni & Suarjaya (2018), Ulupui (2010) stated that Return on Assets has a significant effect on stock returns.

H<sub>1</sub> : Return on Asset (ROA) affects Stock Return.

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## Effect of Return on Equity on Stock Returns

The greater the return on equity (ROE) the greater the pasar price, because the large return on equity (ROE) gives an indication that the return that the investor will receive will be high so that investors will be interested in buying the stock, and it causes the stock market price to tend to rise. Based on the results of research by Carlo (2014), Atiqoh et al. (2019), Worotikan et al. (2021) stated that return on equity (ROE) affects stock returns. This means that the higher the return on equity (ROE) of a company, the higher the return of shares produced. Based on previous studies, the hypothesis of this study is:

H<sub>2</sub> : return on equity (ROE) affects stock returns.

## The Effect of Firm Size on Stock Returns

The size of the company is also arepulsion of the u kur for a company to determine the type of company capacity it has. Based on the signaling theory, the large size of the company reflects that the company has a good performance for the future so that it becomes a positive signal for themarket so that it will be willing to pay more to get company shares. The size of the company as measured by the Natural Logarithm of the company's total assets affects the return on shares. Based on the results of research by Pratiwi & Putra (2015), and Sugiarto (2011) stated that firm size affects stock returns. Therefore, investors are more speculated to choose a large company in the hope of obtaining a large profit (return) as well. Based on the explanation above, the hypotheses in this study are:

H<sub>3</sub> : The size of the company affects the return on shares.

## Effect of *Operating Cash Flow* on Stock Returns

Operating cash flow which is a measuring instrument that can determine whether the company's operating activities can generate sufficient cash flow to pay off loans and maintain the company's operating capabilities. Information about the cash flow of a company is useful for users of financial statements as a basis for assessing the company's capabilities and assessing the company's need to use the cash flow. Based on the results of research by rachmawati ria (2016), Nurhayani. A & Mandala (2016) stated that operating cash flow affects stock returns. The more efficient the market, the more convincing the information about the increase in cash flow of operating activities will be to increase stock returns. Based on the explanation above, the hypotheses in this study are:

H<sub>4</sub> : *Operating cash flow affects stock returns.*

## Method

This research uses an associative quantitative approach. The population that is the object of this study includes all Food and Beverage companies listed on the Indonesia Stock Exchange

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for the 2018-2020 period. The sampling technique was purposive sampling and 13 food and beverage companies were obtained based on predetermined criteria. In this study, the sample was companies that met certain criteria according to Bahri (2018) with modifications from peneliti. The criteria for the research sample are:

1. Food and Beverage companies listed on the IDX have issued financial statements successively during the 2018-2020 period.
2. Food and Beverage companies that provide financial statements on a continuous basis during the 2018-2020 period.
3. Food and Beverage companies that earned consecutive profits during the period 2018-2020.
4. Food and Beverage companies that distribute dividends during the 2018-2020 period.

## Research Variables

### Stock Return (Y)

Stock return is the profit of the price difference (capital gain) which is the profit received due to the difference between the selling price and the purchase price of shares from an investment instrument, which means that the investment instrument must be traded in the market. Annual stock return of Food and Beverage companies listed on the Indonesia Stock Exchange in 2018-2020.

### Return On Assets (X1)

According to Fahmi (2015) return on assets (ROA) measures the investment that has been invested in being able to provide a return on profits as expected. The return on assets (ROA) ratio is calculated in the following way:

$$\text{Return on Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}} \times 100\% \quad \dots\dots\dots 1$$

### Return on Equity (X2)

Return on equity is a profitability ratio that measures a company's ability to generate a profit from shareholders' investments in the company. This ratio can be calculated by the following formula:

$$\text{Return on Equity} = \frac{\text{Net profit after tax}}{\text{Total Equity}} \times 100\% \quad \dots\dots\dots 2$$

### Operating Cash Flow (X3)

Operating cash flow is a statement of the company's operating cash flow. In this study operating cash flow is calculated as a change in operating cash flow formulated as follows:

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$$AKO = \frac{AKO_{i,t} - AKO_{i,(t-1)} \times 100}{AKO_{t,(t-1)}} \dots\dots\dots 3$$

Information:

- AKO = *Operating cash flow*
- AKO<sub>i,t</sub> = *operating cash flow for the current period*
- AKO<sub>i,(t-1)</sub> = *operating cash flow of the previous period*

**Firm Size (X4)**

Firm size in a company is basically a grouping of companies into several groups, including large, medium and small companies. Company scale is a measure used to reflect the size of the company based on the company's total assets (Suwito and Herawaty, 2005). To determine the size of the enterprise can be calculated in the following way:

Company Size = Ln (Total Assets).

The analysis method in this study aims to test hypotheses with the berganda regression method. Multiple regression analysis is an analysis that connects between two or more independent variables with dependent variables. The purpose of multiple regression analysis is to measure the intensity of the relationship of two or more variables (Bahri, 2018). Through regression analysis, further testing is carried out with the formula:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e \dots\dots\dots 4$$

Information:

- Y : *Dependent Variable (Stock Return)*
- a : *Constant Value*
- b : *Regression Coefficient*
- x<sub>1</sub> : *Return On Assets*
- x<sub>2</sub> : *Return On Equity*
- x<sub>3</sub> : *Operating Cash Flow*
- x<sub>4</sub> : *Firm Size*
- e : *Error (Residual)*

**Hypothesis Test**

Bahri (2018) the value of t is obtained in the output part of the regression coefficient used for hypothesis testing the influence of individual independent variables on dependent variables. To test the hypothesis, the criteria for taking themessenger's kep are as follows:

- a. If the signification value > 0.05 then H<sub>1</sub> is rejected, meaning that the individual independent variable has no effect on the dependent variable.

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- b. If the signification value  $\leq 0.05$  then  $H_1$  is accepted, meaning that the independent variable individually and significantly affects the dependent variable.

## Result

After statistical testing using SPSS 25.00, descriptive statistics were generated which aimed to provide an overview of the characteristics of research variables (Ghozali, 2006).

**Table 1. Descriptive Statistics**

	Mean	Std. Deviation	N
STOCK RETURNS	3239.768974358974400	4032.179928403490500	39
Roa	24.989254431020807	134.627486927404160	39
Roe	7.501526894148395	52.955063346654310	39
FIRM SIZE	24.101323758118546	5.443689098241141	39
OPERATING CASH FLOW	1866178739308.539	3508116557927.2400	39

Classical assumption tests are carried out before hypothesis testing, this test needs to be applied because a regression model will be able to be analyzed properly if it meets the requirements of classical assumptions (Ghozali, 2006).

**Table 2. Kolmogorov-Smirnov Normality Test Results**

		Unstandardized Residual
N		39
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	2429.52474057
Most Extreme Differences	Absolute	.126
	Positive	.111
	Negative	-.126
Statistical Test		.126
Asymp. Sig. (2-tailed)		.124 <sup>c</sup>

Based on the test results of the residual value, it is known that the Asymptotic Significance value is 0.124. This the results show that the data is normally distributed because the Asymptotic Significance is greater than 0.05. This result is juga reinforced in the image below.



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**Table 3. Multicholinerity Test Results**

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	11985.368	2361.746		5.075	.000		
Roa	.734	3.438	.025	.214	.832	.810	1.234
Roe	22.252	8.948	.292	2.487	.018	.773	1.293
FIRM SIZE	-392.999	89.791	-.531	-4.377	.000	.727	1.376
OPERATING CASH FLOW	2,899E-10	.000	.252	2.191	.035	.806	1.241

a. Dependent Variable: STOCK RETURN

The Coefficients table shows that the VIF value of the ROA variable is 1.234, the ROE variable is a VIF value of 1.293 and the firm size variable is a VIF value of 1.376 and the operating cash flow variable is a VIF value of 1.241. The values of the four variables < 10 or no free variables that have a variance inflation factor (VIF) above 10, so it is concluded that there is no multicollinearity between free variables in the regression model used.

**Table 4. Heterochedasticity Test Results**

			Roa	Roe	FIRM SIZE	OPERATING CASH FLOW	Unstandardized Residual
Spearman's Rho	Roa	Correlation Coefficient	1.000	.586**	-.425**	.456**	.047
		Sig. (2-Tailed)	.	.000	.007	.004	.778
		N	39	39	39	39	39
	Roe	Correlation Coefficient	.586**	1.000	-.316	.460**	.220
		Sig. (2-Tailed)	.000	.	.050	.003	.177
		N	39	39	39	39	39
	FIRM SIZE	Correlation Coefficient	-.425**	-.316	1.000	-.294	.051
		Sig. (2-Tailed)	.007	.050	.	.070	.759
		N	39	39	39	39	39
	OPERATING CASH FLOW	Correlation Coefficient	.456**	.460**	-.294	1.000	.199
		Sig. (2-Tailed)	.004	.003	.070	.	.225
		N	39	39	39	39	39
Unstandardized Residual		Correlation Coefficient	.047	.220	.051	.199	1.000
		Sig. (2-Tailed)	.778	.177	.759	.225	.
		N	39	39	39	39	39

\*\* . Correlation Is Significant At The 0.01 Level (2-Tailed).

Based on the correlations table, it shows the correlation between the variables ROA, ROE, Firm size and operating cash flow with the value of Unstandardized residual having a significance value (Sig 2 tailed) of more than 0.05. A significance level of 0.778 > 0.05 means that heteroskedasticity does not occur.

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**Table 5. Autocoleration Test Results**

Lag	Autocorrelation	Std. Error <sup>a</sup>	Box-Ljung Statistics		
			Value	Df	Sig. <sup>b</sup>
1	.417	.154	7.322	1	.007
2	.027	.152	7.353	2	.025
3	-.081	.150	7.641	3	.054
4	-.071	.148	7.870	4	.096
5	-.106	.146	8.403	5	.135
6	-.038	.144	8.473	6	.205
7	-.055	.141	8.627	7	.281
8	.130	.139	9.493	8	.302
9	.137	.137	10.492	9	.312
10	.051	.135	10.636	10	.387
11	-.020	.132	10.660	11	.472
12	-.106	.130	11.325	12	.501
13	-.229	.128	14.547	13	.336
14	-.175	.125	16.496	14	.284
15	-.160	.123	18.198	15	.252
16	-.092	.120	18.793	16	.280

a. The underlying process assumed is independence (white noise).

b. Based on the asymptotic chi-square approximation.

Table 5 shows that 16 lags are insignificant. The conclusion that tests with the Box-Pierce and Ljung Box tests did not show any autocorrelation.

**Table 6. Multiple regression Test Results**

Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11985.368	2361.746		5.075	.000
	Roa	.734	3.438	.025	.214	.832
	Roe	22.252	8.948	.292	2.487	.018
	FIRM SIZE	-392.999	89.791	-.531	-4.377	.000
	OPERATING CASH FLOW	2,899E-10	.000	.252	2.191	.035

The correlation coefficient (R) describes the strength of the relationship between independent variables and dependent variables. The correlation coefficient (R) is said to have a strong relationship when  $R > 0.5$ . Based on the table above, it can be seen that the correlation coefficient (R) between return on assets (X1), Return on equity (X2), Firm size (X3), operating cash flow (X4) has a strong relationship because R of 0.798 is greater than 0.5. The magnitude of the percentage of the influence of independent variables on dependents can be seen from Adjusted R Square of 0.594. Thus, return on assets (X1), Return on equity (X2), Firm size (X3), operating cash flow (X4) has an effect of 59.4% on the Return on Shares (Y) of food and

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beverage companies listed on the IDX for the 2018-2020 period. The sisanya of 40.6% is explained by other variables that were not included in this study. The statistical test t basically shows how far the independent variable affects the dependent variable by assuming that another independent variable is considered constant. Based on the results of the t test in table 6, it shows that only hypotheses of 1 ditolak are seen from the significance value of t which  $> 10\%$  and hypotheses 2, 3, and 4 are accepted. This means that partially the variable return on assets does not affect stock returns while the variable return on equity, firm size and operating cash flow have a positive impact on stock returns with a significance level of 10%. This can be seen from the value of the coefficients of return on equity (X2), firm size (X3) and operating cash flow (X4) showing significant values with significance of 0.018, 0.000, and 0.035 ( $>10\%$ ).

## **Discussion**

### ***Return On Asset (ROA) affects Stock Return***

ROA shows the effectiveness of companies utilizing their assets to generate net profit after tax. However, in this study, the results were obtained that ROA did not have a significant effect on stock returns. This shows that the effectiveness of using assets owned by the company in generating net profit after tax is not a reference for investors in making investment decisions. Investor does not solely use ROA as a measure in assessing a company's performance to predict the return of a company (Setiyono, 2016). This is consistent with the research of Nur et al. (2018), Setiyono & Amanah (2016), Mangantar et al. (2020) which states that ROA has no significant effect on stock returns. The company's ability to generate profit by utilizing its assets has not been able to become a reference for investors in assessing the company's financial management.

### ***Return On Equity (ROE) affects Stock Returns***

Based on the results of the regression test, hypothesis 2 affects stock returns. The positive relationship of ROE to stock returns shows that if ROE increases, stock returns will also increase. Pay attention to the value of ROE in making decisions to invest. ROE is a profitability ratio that reflects the company's ability to generate profits for shareholders on the capital it has invested. This will be an attraction for investors to invest in the company (Nurmasari (2017). With the increasing demand for shares, it causes the stock price to rise and this causes the Stock Return or return rate to be large due to the difference in the current stock price with the previous period. This is in accordance with the research of Devi & Artini (2019) which states that Return on Equity (ROE) has a significant effect on Stock Returns.

### ***Firm Size affects Return Saham***

Based on the results of the regression test that hypothesis 3 affects stock returns, this significant influence indicates that the Company Size affects stock returns. The size of the company indicates that the larger and more established a company will have a greater chance

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of going to the capital market, and vice versa. The more efficient the market, the more convincing the information about the increase in the size of the company will be able to increase stock returns (Pratiwi & Putra, 2015). This is consistent with research by Sugiarto (2011) which states that Company Size has a significant effect on stock returns.

### ***Operating cash flow affects Stock Returns***

Based on the results of the regression test, hypothesis 4 affects stock returns. This shows that operating cash flow has a significant effect on stock returns. Operating cash flow is an important element needed by investors in making investment decisions. Investors use operating cash flow information as a measurement of the company's performance and are able to describe economic conditions and are able to provide a basis for future cash flow projections that tend to be measured through stock prices and stock returns. Operating cash flow is a measuring instrument that can determine whether the company's operating activities can generate sufficient cash flow to pay off loans, maintain the company's operating capabilities, pay dividends and make new investments without relying on outside funding sources (Nurhayani. A & Mandala, (2016). the results of this study support research from Nurhayani. A & Mandala (2016) which states that operating cash flow affects stock returns.

## **Conclusion**

Based on the results of the discussion that has been described in the previous chapter, the following conclusions are obtained. Return On Asset does not affect the Return on Shares in food and beverage companies listed on the Indonesia Stock Exchange. Investors do not solely use ROA as a measure in assessing a company's performance to predict a company's return. Return on equity has a significant effect on stock returns in food and beverage companies listed on the Indonesia Stock Exchange. This will be an attraction for investors to invest in the company. Firm size has a positive and significant effect on Stock Returns in food and beverage companies listed on the Indonesia Stock Exchange. The more efficient the market, the more convincing the information about the increase in the size of the company will be able to increase stock returns. Operating cash flow has a significant effect on stock returns in food and beverage companies listed on the Indonesia Stock Exchange. Operating cash flow is an important element needed by investors in making investment decisions. Based on the conclusions and analysis that has been carried out, the advice for researchers can then use the lain sub-sector or all companies listed on the Indonesia Stock Exchange so that the results can be generalized, for the Return On Asset variable can use other variables and the research period can use a longer period of time again, so as to maximize in obtaining research results.

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