

Firms' Profitability and Stock Returns: Does it Always Affect Positively?

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ABSTRAK

Saham mencerminkan bukti pemilik perusahaan, artinya setiap investor mengharapkan pengembalian yang maksimal dari biaya yang dikeluarkan saat membeli saham. Penelitian sebelumnya menyatakan bahwa profitabilitas memiliki hubungan positif dengan return saham. Artinya perusahaan yang sangat menguntungkan akan meningkatkan nilai perusahaan, dan pada akhirnya harga saham akan meningkat. Namun, Indeks Industri Barang Konsumen Indonesia turun signifikan pada 2018–2019, sementara sebagian besar perusahaan memiliki profitabilitas yang baik. Oleh karena itu, penelitian ini bertujuan untuk menguji apakah profitabilitas selalu memiliki hubungan positif dengan return saham perusahaan. Penelitian ini menggunakan sampel sebanyak 35 perusahaan Industri Barang Konsumen BEI periode 2017–2019 dengan metode regresi berganda. Variabel profitabilitas yang digunakan dalam penelitian ini adalah laba bersih, return on equity, dan pertumbuhan penjualan. Hasil penelitian menunjukkan bahwa laba bersih dan return on equity berpengaruh positif signifikan terhadap return saham; sebaliknya pertumbuhan penjualan tidak berpengaruh signifikan terhadap return saham.

ABSTRACT

Stocks reflect a company's owner proof, which means that every investor expects the maximum returns from the cost incurred when buying stocks. Previous research stated that profitability has a positive relationship with stock returns. Meaning that a highly profitable company will increase the company values, and eventually, the stock prices will increase. However, the Indonesia Consumer Goods Industry Index drops significantly in 2018–2019, while most companies have good profitability. Therefore, this research aims to test whether profitability always has a positive relationship with the company stock returns. This research uses a sample of 35 IDX Consumer Goods Industry companies for 2017–2019 with a multiple regression method. Profitability variables used in this research are net income, return on equity, and sales growth. The result indicates that net income and return on equity have a significant positive effect on the stock returns; otherwise, sales growth has no significant effect on the stock returns

1. INTRODUCTION

In December 2019, there were 671 companies spread in nine industries on the Indonesia Stock Exchange (Ananda, 2019; Supatmi et al., 2019). Based on the sector's market capitalization, the Consumer Goods Industry is the second biggest industry on the Indonesia Stock Exchange with a 16,1% proportion compared to other industries (Supatmi et al., 2019). At the end of 2019, four companies from the Consumer Goods Industry are considered Top 10 Leading Companies by Market Capitalization in Indonesia Stock Exchange—those are PT HM Sampoerna (HMSP), PT Unilever Indonesia (UNVR), PT Gudang Garam (GGRM), and PT Indofood CBP Sukses Makmur (ICBP). The Consumer Goods Industry grew very well by creating 23,11% growth during 2017, and even it was higher than the Jakarta Composite Index, which only created 19,99% growth in the same year (Akhmadi & Prasetyo, 2018; Ratri & Christianti, 2017). However, that extraordinary growth did not last and began to decline in the following years. Statistics from Bursa Efek Indonesia showed that the Consumer Goods Industry declined by 10,21%, and it was the second-lowest industrial growth during 2018. However, the Jakarta Composite Index also created minus growth by -2,54% in 2018. The following year, the Consumer Goods Industry showed a worse condition by plunging -20,11% while the Jakarta Composite Index succeeded in creating

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2,1% growth. Hence, the Consumer Goods Industry became the lowest growth industry during 2019 while other industries created incredible growth, e.g., Finance Industry with 15,22% growth and Basic Industry with 14,44% growth.

Two factors affect the Consumer Goods Industry's stock returns during 2018-2019 (Alexander & Destriana, 2013; Thamrin, 2012). First, the Indonesian Government established a new regulation related to tobacco tax at the end of 2019. The regulation contains an increase of tobacco tax in 2020 that creates a bad catalyst for the tobacco industry, the largest industry in the Consumer Good Industry. PT HM Sampoerna (HMSP) and PT Gudang Garam (GGRM) are examples of companies with a large market capitalization from the tobacco industry. Second, Bank Indonesia issued the bad result of the Consumer Confidence Index Survey during 2019. The consumer confidence index represents the future developments of households' consumption and saving based on the economic situation's consumer expectation (Dees & Soares Brinca, 2013). The survey from Bank Indonesia in 2019 showed that Indonesia's consumer confidence index declined continuously until hitting 118.4 points in October 2019. Further, the report of Bank Indonesia showed that the consumers have become increasingly pessimistic with the economic condition at that year. Therefore, the Consumer Goods Industry's declining performance during 2018-2019 is analogous to the consumer confidence index's bad result.

Previous research explained that a company's net profit would eventually positively affect the stock returns because it influences the profitability ratios, such as return on assets (Anwaar, 2016). It means that if the company's net profit increases, the return on assets and stock returns will also increase. Similarly, other research showed the substantial and significant effects of a company's profitability towards stock returns (Allozi & Obeidat, 2016). Another study also suggested that stock return was influenced by the level of profitability a corporation has (Yuliarti & Diyani, 2018). Further, previous studies found that net income can positively influence bank companies' stock prices (Purwanti et al., 2015; Rusdiyanto & Narsa, 2019). If the companies can increase their net income, the stock prices will also increase and vice versa. The increase happened because many investors might look at the net income when conducting fundamental analysis before buying the stocks. However, the opposite situation happened to several companies in the Consumer Goods Industry from 2018 until 2019.

For example, PT HM Sampoerna (HMSP), the biggest company in the Consumer Goods Industry based on market capitalization, has performed well during the last five years by creating good revenue growth from year to year. From 2014-2017, PT HM Sampoerna managed to record average revenue growth of 7.12%. Besides, PT HM Sampoerna has also successfully achieved good net profit growth from 2017-2019. In 2018, the company created 13,5 Trillion Rupiahs net profit, 6,85% higher than the previous year. However, PT HM Sampoerna's stock prices fell considerably instead of creating growth as its profit grew. Although the profits are rising, the stock prices declined from Rp 5.550 (January 2018) to only Rp. 3.710 (December 2018). That has also happened for some companies in the Consumer Goods Industry, such as PT Unilever Indonesia and PT Gudang Garam Indonesia. These phenomena may suggest a difference between the results of the previous studies compared to the situation in the Consumer Goods Industry from 2017 until 2019.

Meanwhile, previous studies spell out several factors that could also influence a specific industry's stock prices. For example, previous study explained how earning volatility, net income, and comprehensive income affect a banking company's stock prices (Rusdiyanto & Narsa, 2019). The research used 2011 to 2016 data to help the investors conduct fundamental analysis in the stock market. Other than that, several variables that might influence the Consumer Goods Industry's stock performance during 2011-2015 (Sari et al., 2017). The result showed that return on investment (ROI), return on equity (ROE), earnings per share (EPS), and market value added (MVA) could significantly affect the stock returns of the companies in the Indonesia Stock Exchange. Moreover, other research also studied how accounting earnings affect its stock returns in Malaysia's Plantation Industry (Pik Har & Afif, 2015). Aside from those studies, the determinants that may affect the stock price volatility in the Indonesian Manufacturing Sector, which also used sales growth as one of the variables (Handayani et al., 2018). In conclusion, fundamental analysis in the stock market resulted in profitability positively affecting the stock returns. Therefore, if the company has good profitability, the stock prices will also go up.

The Consumer Goods Industry's poor performance during 2018-2019 significantly affected the overall market performance condition. The performance happened due to the large portion of this industry on the Indonesian Stock Exchange. Most of the companies in this industry performed well by creating good profitability, but the stock prices declined from time to time. Despite the vast importance of this phenomenon, there is still few studies investigated the relationship between profitability and stock returns of the Consumer Goods Industry in the Indonesia Stock Exchange during 2018-2019 (Berggrun et al., 2020; Handayani et al., 2018; Pik Har & Afif, 2015; Rusdiyanto & Narsa, 2019; Sari et al., 2017). Accordingly, this research aims to answer and explain the influence of company profitability towards

stock returns, particularly in the Indonesian Consumer Goods Industry from 2017 until 2019—does it always affect positively? Further, this research is expected to obtain further relationship between company profitability and stock returns of the Consumer Goods Industry during 2018-2019, given the existing perspective from investors who usually think that a company with good profit growth would have good stock returns.

2. METHODS

This research conducted quantitatively by using numerical data in investigating the hypothesis. The data and financial numbers are from secondary data source, in the form of financial statements and market statistics on the Indonesia Stock Exchange website (www.idx.co.id). To give the best result and perspective, this research collected the data from 2017-2019 as the peak performance of Consumer Goods Industry in 2017 and the worst at 2019. The population of this research is 52 companies inside the Consumer Goods Industry. Purposive sampling method was used to find the relevant data by certain criteria. These criteria of the samples are: (1) Companies listed in Indonesia Stock Exchange from 2016 until 2020 and never delisted to assume that the companies are stable enough. (2) Companies that have complete Net Income, Return on Equity, Sales Growth, and Stock Price data from 2016 until 2020. Thirty-five companies met the required criteria, and the total data is 105.

This research used multiple regression analysis with T-Test, F-Test, and Coefficient Determination to examine the influence direction of independent variables on dependent variables. Prior to performing the multiple regression, the classical assumption test was performed to test the data reliability. The steps taken for classical assumption test were normality test, multicollinearity test, and autocorrelation test. After the classical assumption test fulfilled, the coefficient of determination, T-Test, and F-Test performed. In this research, the α is assumed to be a 0.05 or 95% confidence level as the statistical standard. T-Test will be used to know the partial effect of one independent variable towards a dependent variable. The basis for the decision making of T-Test are the X variable influences the Y variable significantly if the significance value < 0.05 or T Count $>$ T Table; the X variable doesn't influence the Y variable if the significance value > 0.05 or T Count $<$ T Table. F-Test is used to know the simultaneous effect of all independent variables towards dependent variables. The basis for the decision making of F-Test are if the significance value < 0.05 or F Count $>$ F Table, the X variable has a simultaneous effect on the Y variable; if the significance value > 0.05 or F Count $<$ F Table, then the X variable hasn't a simultaneous effect on the Y variable. Finally, the coefficient of determination has a role in simultaneously determining the percentage of influence given by the independent variables to the dependent variable.

3. RESULTS AND DISCUSSIONS

Results

From the data population available, 35 companies have provided reliable data to perform the hypothesis testing. Before discussing the hypothesis and providing the result, all the data have passed the classic assumption test consisting of normality, multicollinearity, and autocorrelation test. After the data is proven to be normally distributed, T-Test, F-Test, and Coefficient Determination were performed to test the hypothesis. The descriptive statistics showed that from 105 data samples, all the data were valid and reliable to test the hypothesis. Therefore, the data will represent the actual condition when performing the multiple regression analysis.

Classical Assumption Test

Before performing the hypothesis testing, the classical assumption test should be performed to get the reliable regression model. The normality test uses the Kolmogorov-Smirnov Test by observing the significance value of the data. The result showed that the data is normally distributed because of the *asympt. sig* value is 0.062, which is bigger than the significance level ($\alpha=0.05$). Next, the autocorrelation test is performed by using the Durbin Watson Test. The total samples are 104 ($n=104$), and the total variables are 3 ($k=3$). Therefore, the Durbin Upper (*du*) value is 1.7402, and the Durbin Lower (*dl*) is 1.6217. A data considered to be asymptomatic from autocorrelation if $du <$ Durbin Watson $<$ $4-du$. The result showed that the Durbin Watson value is 2.079, suggesting that it is asymptomatic of autocorrelation because $1.7402 < 2.079 < 2.2598$. Finally, the multicollinearity test aims to determine whether the dependent variables have a high correlation or not. If it is detected, the regression model will bias. Data that is asymptomatic from multicollinearity will show the Tolerance $>$ 0.01 and VIF $<$ 10. The result showed that the VIF and Tolerance are 1,001 and 0,999 – Net Income, 1,010 and 0.999 – ROE, followed by 1.010 and 0.999 – Sales Growth. Therefore, the data is not showing any multicollinearity symptoms. From those classical assumption test, it concluded that the data in this research is normal and prevent a bias.

Hypothesis Testing

This research used the multiple regression coefficient determination, F-Test, and T-Test to test the hypothesis. The F-Test aims to test the relationship between variables simultaneously, and the T-Test will test it partially. Coefficient determination test (R Square) explains the magnitude of influence the independent variables are on the dependent variable. According to the coefficient determination test, the amount of R Square is 0,155 or 15,5%. Therefore, it means that 15,5% of stock returns in the Consumer Goods Industry during 2017-2019 was influenced by net income, return on equity, and sales growth simultaneously.

Table 2. Result of F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.060	3	0.020	6.121	0.001
	Residual	0.326	100	0.003		
	Total	0.386	103			

F-Test

The F-Test was conducted in this research to determine whether the independent variables have a simultaneous effect on the dependent variable. The result of the F-Test is shown in Table 2. From the Table 2, the significance value is 0.001, which is more significant than α (0.05). Therefore, the F-Test showed that the net income, return on equity, and sales growth influence the stock returns simultaneously.

Table 3. Result of T-Test

Model	B	Std. Error	Beta	T-Count (t)	Sig.
1. (Constant)	0.007	0.007		-1,084	0,281
Net Income	0.034	0.010	0.306	3,324	0,001
ROE	0.047	0.019	0.237	2,561	0,012
Sales Growth	0.013	0.041	0.028	0,304	0,762

T-Test

T-Test has a role in determining the influence of the independent variable on the dependent variables partially. Table 3 contains the information about the T-Test in the hypothesis testing. Accordingly, the net income significantly impacts the stock returns because the significant value is 0,001 or more minor than α (0.05). Moreover, the return on equity has 0,012 as the significant value smaller than α (0,05), which means a significant positive impact between return on equity and stock re-turns. Furthermore, the sales growth has an insignificant positive influence on the stock returns because the significance value is 0,762, which is bigger than the α (0,05).

Discussion

Net Income on Stock Returns

The first hypothesis of this study is net income has positive impact to the stock returns (H1a) and net income has negative impact to the stock returns (H1b). Based on the results of the T-Test, the significant value of net income is 0,001 or more minor than α (0.05). Therefore, it is proven that the net income has positive significant impact to the stock returns of the Consumer Goods Industry during 2017 – 2019. There is also conformity with the findings of several studies who found that profitability has significant positive impact to the stock returns and becomes the strong indicator for the investors to buy a company's shares (Chandra et al., 2019; Ebrahimi & Chadegani, 2011; Hamidah, 2015). It means that the stock returns will increase when a company experiences an increase in profit (Alexander & Destriana, 2013). Thus, the net income and stock returns have a significant positive impact.

Return on Equity on Stock Returns

The second hypothesis of this study are return on equity has positive impact to the stock returns (H2a) and return on equity has negative impact to the stock returns (H2b). The result of T-Test indicates that the significant value of ROE is 0,012 or less than α (0.05). Therefore, it is shown the significant positive impact of ROE to the stock returns on the Consumer Goods Industry during 2017 – 2019. These findings also justified by several previous studies that stated the significant positive impact of ROE to the stock returns due to the efficient equity utilization (Hunjra et al., 2014; Kabajeh et al., 2012). Every

increase in a company's return on equity would increase the stock returns (Ramlah, 2021). Further, ROE become the most important indicator to determine the company's performance because of its ability to measure the investor's profit from their equity investment. It concludes that the H2a is accepted and H2b is rejected since the ROE will positively affect the stock returns.

Sales Growth on Stock Returns

The third hypothesis of this study are sales growth has positive impact to the stock returns (H3a) and sales growth has negative impact to the stock returns (H3b). Based on the T-Test result, the significant value of sales growth is 0,762 or higher than α (0.05), meaning that the sales growth has insignificant positive impact to the stock returns. However, similar previous studies stating slightly different results. Sales growth has significant positive impact to the company stock returns because its influence to the company's profit growth and financial performance (Handayani et al., 2018). A growth in sales will increase the stock returns due to the higher sales and smaller cost of capital (Fauzan et al., 2019; Yusintha & Suryandari, 2010). Further, a company with high sales growth would be able to enlarge their company's size because it has linkage to the increasing availability of corporate funds to perform the strategic investment (Omid, 2012; Zhang & Gong, 2018). Therefore, the H3a is accepted and H3b is rejected because the sales growth has positive influences on stock returns even though it is insignificant.

4. CONCLUSION

Based on the result of the research analysis, it is concluded that net income, return on equity, and sales growth positively influences the company's stock return in the Consumer Goods Industry during 2017-2019. The net income and return on equity variable has significant positive influences. However, the sales growth has insignificant influences on the stock returns. This research was conducted to answer whether company profitability will always affect the stock returns positively referring to the huge phenomena at the Consumer Goods Industry during 2017 – 2018. The result showed that profitability has a positive impact to the company's stock return, but the significance rate between variables became the differentiating factor. Some profitability variables might show a low level of influence to the stock returns. Furthermore, the net income, return on equity, and sales growth has significant positive effects on the stock return simultaneously with a 15,5% influence rate. Finally, this research was limited by factors, such as not considering the moderating variable and the stock return data from the financial statement release date range. Therefore, it is recommended for future studies to use a moderating variable such as firm size and macroeconomic variable. Further, it is also recommended to calculate the average stock return from three months before until several days after the financial statement release date to bring a more extensive point of view.

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