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THE EFFECT OF PROFITABILITY, SOLVABILITY, LIQUIDITY, AND FIRM SIZE ON STOCK RETURNS (EMPIRICAL STUDIES ON PROPERTY, REAL ESTATE, AND BUILDING CONSTRUCTION COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD 2014-2017)

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R. Wedi Rusmawan Kusumah, Atang, Indra Ari Yudhanto, The Effect Of Profitability, Solvability, Liquidity, And Firm Size On Stock Returns-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(4), 3577-3584. ISSN 1567-214x

Keywords: Profitability, Solvability, Liquidity, firm size, and Stock Return.

ABSTRACT

This study aims to determine whether profitability, leverage, liquidity, and firm size affect stock returns in the Property, Real Estate, and Building Construction Sub-Sector Companies for the period of 2014-2017.The factors tested in this study are profitability, leverage, liquidity, and firm size as independent variables, while stock returns as the dependent variable.The research method used in this research is explanatory method.The population in this study was the property, real estate, and building construction sub-sector companies for the period of 2014-2017, total of 73 companies.The sampling technique used in this study was non-probability sampling with a purposive sampling method, so that the total sample used is 25 companies.While the data analysis used in this study is multiple linear regression analysis at a significance level of 5%.The program used in analyzing data is Eviews 9.The results showed that profitability and leverage had an effect on stock returns, while liquidity and firm size had no effect on stock returns.

Keywords: Profitability, Solvability, Liquidity, firm size, and Stock Return.

INTRODUCTION

Expansion is one of the ways used to expand the company. Expansion cannot be done easily, because expansion requires a lot of funds that must be owned. Alternative sources of funding that can be obtained by the company are through company profits and sales of securities. Company securities are traded on the capital market, which is usually referred to as the Indonesia Stock Exchange (IDX). But before being able to buy and sell securities, the company must be declared registered as an issuer on the IDX (Hadi, 2013: 36).

Returns can be in the form of realized returns that have occurred or expected returns that have not occurred but which are expected to happen in the future. Realized returns is the return that has occurred. Realized returns are calculated using historical data. Realized return is important because it is a mean used to measure performance of the company. This historical return is also useful as a basis to determine the expected return and risk in the future (Hartono, 2017: 263).
Profitability ratios are used to assess the company's ability to seek profits. Profitability ratio also provides a measurement of the level of management effectiveness of the firm. The use of this ratio shows the efficiency of the company (Kasmir, 2016: 196). Company profitability is proxied by ROA.

The solvency ratio is used to measure how much the company's assets are financed by debt, and to measure the company's ability to pay all its debts if the company is liquidated (Kasmir, 2016: 151). Firm solvency is proxied by using DER.

The liquidity ratio shows the company's ability to pay its short-term debt or the ratio to find out how to meet its debts at maturity (Kasmir, 2016: 128). The company's liquidity is proxied by the CR.

The researcher intends to conduct research with the theme: Stock Returns Influenced by Profitability, Solvency, Liquidity, and Firm size.

RESEARCH REVIEW

Return Stock

Returns can be in the form of realized returns that have occurred or expected returns that have not occurred but which are expected to occur in the future (Hartono, 2017: 263).

Abnormal Return

According to Hartono (2017: 647), abnormal return is the advantageof actual returns against normal returns. The normal return is the expected return or return expected by investors. Abnormal return is the difference between the actual yield and the expected yield.

Profitability

Kasmir (2016: 201) ROA shows a company's ability to profit with total assets owned. ROA is the most important ratio among the existing profitability ratios.

Solvability

Kasmir (2016:157), DER used to assess debt to equity, for knowing the rupiah amount of own capital which is used as a money guarantee.

Liquidity

Kasmir (2016: 134), the CR shows the company's ability debt that matures immediately when collected as a whole. In practice, it is often used that the standard current ratio of 200% (2: 1) is sometimes considered a fairly good or satisfactory for a company.

Research Hypothesis

H1: Profitability has an effect on the Company’s stock return.
H2: Solvability affects the Company’s stock return.
H3: Liquidity affects the Company’s stock return.
H4: Firm size affects the Company’s stock return.

RESEARCH METHODS

The population is the Property, Real Estate, and Building Construction companies listed on the IDX for the period 2014-2017. The sample selection was carried out by purposive sampling method, namely the sampling technique used by the researcher if the researcher had to determine the sample for a specific purpose. The criteria chosen are retail companies listed on the IDX during the 2013-2017 period, companies that issuing and publishing audited annual financial reports and companies that have a complete share price data to perform calculations. Based on these criteria, 25 companies were obtained as research samples.

Research Sample Table

NO.	STOCK CODE	NAME OF ISSUERS
1	ACST	Pt. Acset Indonusa Tbk
2	APLN	Pt. Agung Podomoro Land Tbk
3	ASRI	Pt. Alam Sutera Realty Tbk
4	BAPA	Pt. Bekasi Asri Pemula Tbk
5	BEST	Pt. Bekasi Fajar Industrial Estate Tbk
6	BIPP	Pt. Bhuwanatala Indah Permai Tbk
7	BSDE	Pt. Bumi Serpong Damai Tbk
8	DART	Pt. Duta Anggada Realty Tbk
9	DGIK	Pt. Nusa Konstruksi Enjiniring Tbk
10	DILD	Pt. Intiland Development Tbk
11	ELTY	Pt. Bakrieland Development Tbk
12	EMDE	Pt. Megapolitan Developments Tbk
13	GMTD	Pt. Gowa Makassar Tourism Development Tbk
14	JKON	Pt. Jaya Konstruksi Manggala Pratama Tbk
15	JRPT	Pt. Jaya Real Property Tbk
16	MDLN	Pt. Modernland Realty Tbk
17	MKPI	Pt. Metropolitan Kentjana Tbk
18	MTLA	Pt. Metropolitan Land Tbk
19	PWON	Pt. Pakuwon Jati Tbk

NO.	STOCK CODE	NAME OF ISSUERS
20	SMDM	Pt. Suryamas Dutamakmur Tbk
21	SMRA	Pt. Summarecon Agung Tbk
22	SSIA	Pt. Surya Semesta Internusa Tbk
23	TARA	Pt. Sitara Propertindo Tbk
24	TOTL	Pt. Total Bangun Persada Tbk
25	WIKA	Pt. Wijaya Karya (Persero) Tbk

Source: www.idx.co.id (data processed)

RESEARCH RESULTS AND DISCUSSION

Chow test

It shows that the chi-square cross-section value is smaller than the probability value of 0.05, then the Chow test results reject Ho. This means that the model rejects the common effect model and follows the fixed effect model.

Hausman Test

It shows that the chi-squarerandom cross-section value is greater than the probability value of 0.05, the Hausman test result accepts Ho. This means that the model rejects the fixed effect model and follows the random effect model.

Lagrange Multiplier Test

It shows that the chi-squarerandom cross-section value is smaller than the probability value of 0.05, the Lagrange Multiplier Test results reject Ho. This means that the model rejects the common effect model and follows the random effect model. From the three tests for selecting the panel data model, it shows that the right model to use is the random effect model.

Classic assumption test

Normality test

The probability value in the Jarque-Bera test is greater than the 0.05 error level, can be concluded the regression model is normally distributed, where the residual data distribution forms a normal distribution curve.

Multicollinearity Test

The multicollinearity test results show that the value of centered variance inflation factors (VIF) shows that the value of each variable is not more than 10. There is no multicollinearity between the independent variables in the regression model.

Heteroscedasticity Test

The results of the heteroscedasticity test showed the multiplication value of Obs * R-squared was 0.7299. Then from the chi-square table there is an error rate of 5% (0.05) and degrees of freedom 3, the value is 7.815. When viewed from the value of Obs * R-squared (0.7299), it shows that the value is less than the value of the chi-square table (7.815) and the chi-square probability value is 0.8661, which shows a value greater than the 5% error rate (0.05), it can be concluded that there are no heteroscedasticity symptoms in the regression model.

Panel Data Regression Analysis
The regression equation model formed based on the research results is as follows:

Y = 0,023115+ 1,334410 PROF -0,083752SOLV + 0,003292LIKU – 0,0000706UP

Discussion
Effect of Profitability on Stock Returns
The better the profitability ratio, the better the company's profitability. The higher the profitability, the higher the stock return. The results of this study are in line with the results of previous studies conducted by Putri (2017), Septiyana et al (2017), Purwati et al (2017), Gunadi (2015) and Permatasari and Kusumah (2017). The research show profitability affects stock returns.

Effect of Solvency on Stock Return
A high Debt to Equity Ratio (DER) indicates that corporate funding is mostly financed by debt. DER is higher, the greater debt that the company must pay which will have an impact on diminishing profits. The research show that solvency has no effect on stock returns.

Effect of Liquidity on Stock Returns
The higher the current ratio value indicates the success of the company in paying current debt with current assets. Investors will be interested in investing because the company's high liquidity level. The research indicate that liquidity has no effect on stock returns.

Effect of Firm size on Stock Return
The greater the total assets, sales and capital of the company so that the company's profits will be bigger and have an effect on the size of the company (Lestari, Andini, & Oemar, 2016). Larger companies can generate higher earnings so that they get higher returns than smaller companies (Ganerse & Suarjaya, 2014), in line with Permatasari and Kusumah's research (2017).

This research shows that firm size has no effect on stock returns, because the size of the stock returns obtained by stakeholders is not only determined by the size of the company, but rather the company's performance. The activity of a company and the good performance of company management which is reflected in the financial statements will be more useful for stakeholders in determining whether to invest or not. The size of the company does not guarantee that the company can provide high returns to stakeholders, because the size of the stock return is determined by the profits obtained by the company and the company's policy in distributing dividends.

The results of this study are conducted by Aisah & Mandala (2016). The results of his research indicate that firm size has no effect on stock returns. While the results of this study are not in line with the results of previous studies conducted by Koluku, Pangemanan, & Tumewu (2015). The results of his research indicate that firm size affects stock returns.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the results of the study using panel data regression analysis, the following conclusions were obtained:

1. The results showed that profitability had an effect on stock returns.
2. The results showed that solvency had an effect on stock returns.
3. The results showed that liquidity had no effect on stock returns.
4. The results showed that firm size has no effect on stock returns.

Suggestion

The suggestions that researchers can convey based on the results of research that have been done are as follows:

1. For the Company's.

    a. Increase the profitability of the company by improving the performance of company management in increasing company sales and minimizing the company's operating costs. In addition, companies also need to pay attention to various external factors (macro factors including inflation, economic growth, the rupiah exchange rate, etc.) that may affect the company's sales policy.

    b. Lowering the solvency ratio by minimizing the use of debt as a source of capital in financing the company's assets or operational activities. The use of capital originating from debt is also limited so that the leverage ratio is not too high, so that it does not have a negative impact on the company's financial distress.

    c. Increase company liquidity by increasing company profits and increasing the supply of current cash to meet short-term obligations that are due in one period.

    d. Firm size has no effect on stock *returns*. The size of the stock *return* is determined by the company's performance not by how big the size of the company is.

    e. Increasing stock *returns* by increasing financial performance and company management performance which can be seen from financial ratios, minimizing risk from external factors (macro and microeconomics) that can cause a decline in stock *returns.*

2. For Prospective Investors

The results are also expected to be used as a reference by potential investors as a material for consideration in making investment decisions by using financial performance and company management performance as a basis for consideration or assessment in investing. One of the potential investors can make a basis for consideration by looking at companies that have liquidity, solvency, profitability, and stock *returns* that are still below the average overall value of the Company's.

3. For Further Researchers

    a. It is recommended for further researchers not to focus only on the factors in this study, but to add other micro or macro factors that have an influence on stock *returns*, such as working capital turnover, firm size, inflation, interest rates, and other factors.

    b. It is recommended for further research to use research subjects other than the companies such as the basic industry and chemical sector, various industries, mining, and companies in other sectors listed on the IDX.

    c. And it is recommended for further researchers to always use the research period with the latest year. These things are intended to provide a broad and up-to-date picture of the factors that can affect a company's stock *returns*.

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