THE EFFECT OF FINANCIAL PERFORMANCE ON FIRM VALUE AND STOCK RETURN

(Study on manufacturing companies listed on the Indonesia Stock Exchange for the period 2015-2017)

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ABSTRACT

This study aims to determine the direct effect of financial performance using DuPont models on stock returns and the indirect effects of financial performance with DuPont models on stock returns through firm value. The total sample in this study consisted of 303 data obtained from 117 manufacturing companies that met the criteria for the study sample. This research uses panel data paths in analyzing data. The results showed that 1) financial performance does not directly and significantly affect stock returns, 2) financial performance has a direct and significant effect on firm value, 3) firm value has a direct and significant effect on stock returns, 4) influential financial performance indirect to stock returns through company value. The results of the research show that financial performance in influencing stock returns is better through firm value than the direct effect of financial performance on stock returns.

Keywords: Financial Performance, DuPont system, Firm Value, intervening, stock return.

1. INTRODUCTION

Investment is an investment that is carried out at this time to obtain profits in the future (Halim, 2005: 4). Everyone has different choices in investing. This is because people in investing are divided into 3 groups, 3 groups are people who like risk, people who are neutral to risk, and people who do not like risk (Kiyosaki and Trump, 2007: 100-101). Therefore everyone will have different investment decisions, some will invest in the banking sector, some will invest in the non-banking sector such as the capital market.

The decision to invest in the capital market is certainly done by several people based on the considerations of each of the investors. Basically, in the selection of shares in the capital market,

there are two analysis techniques that can be carried out by investors, both analyzes are technical analysis and fundamental analysis. Desmaniarti (2016) states that fundamental analysis is an analysis carried out based on company performance. Financial performance can be analyzed in various ways, one of which is by using the DuPont system. In addition to fundamental analysis, investors can also carry out technical analysis. Technical analysis is an analysis carried out by looking at changes in stock from time to time (Halim, 2015: 115-117), one of the technical analysis is by looking at changes in stock prices from time to time.

Fundamental analysis and technical analysis can be used by investors in making investment decisions in order to obtain investment returns. The advantage of investing in the capital market is known as a return.

The object of research in this study is a manufacturing company that is listed on the stock exchange in a manufacturing company listed on the Indonesian stock exchange in 2015-2017. Manufacturing companies are chosen because manufacturing companies have positive fluctuations each year. Manufacturing companies also make a large contribution to national income greater than other companies.

- Financial Performance (X)

In this study, the independent variable is the variable financial performance. In this study financial performance was measured by the DuPont model. Atmaja (2008: 419) suggests Du Pont System shows how debt, asset turnover, and profit margin are combined to determine ROE (return on equity). Sartono (2011: 124) states that ROE aims to measure a company's ability to obtain profits available to the company's shareholders.

Fraser and Ormiston (2008: 253) stated that the Formula Du Pont System can be observed, analysts can identify strengths and weaknesses as well as explore the causes of financial condition problems and overall company performance. If the profit margin is multiplied by total assets turnover, it will generate ROI (Return On Investment).

- Firm Value (Z)

In this study, the value of the company is used as an intervening variable or mediating variable. The author makes this variable an intervening variable because the researcher gets the results of the study stating that financial performance has an effect on the value of the company (Putri: 2015) and the value of the company affects stock returns (Pemadanu: 2011).

Brigham and Hoston (2010: 151) state that company value can also be measured by Price book Value (PBV) or market/book (M / B) ratio. This ratio measures the value given by financial

markets to management and company organizations as a growing company. Companies that are considered good by investors, namely companies with profits and safe cash flow, can be reflected through price to book value.

- Stock Return (Y)

In this study, the dependent variable is the stock return. Stock return is used as a dependent variable because the basis for someone to make an investment is to get a profit or be called a return. According to Tandellin (2010: 105), a Stock return is one of the factors that motivate investors to invest and is also a reward for the courage of investors to bear the risk of investing.

The hypothesis in this study are as follows:

1. H1: There is a positive and significant effect of financial performance on stock returns
2. H2: There is a positive and significant effect of financial performance on firm value
3. H3: There is a positive and significant influence of the company's value on stock returns
4. H4: There is an indirect effect of financial performance on stock returns through firm value

2. METHOD

In this study using a quantitative approach. The research conducted is explanatory research. Sugiyono (2014) states explanatory research is research that explains the causal relationship between variables through testing hypotheses on the same data to find out the relationship or influence between two or more variables.

The analysis technique in this study uses panel path analysis (path panel analysis). In this study, there are 3 types of variables, exogenous variables (financial performance), endogenous variables (stock returns), and mediating variables (Company Value).

Panel path analysis was used in this study because this study used cross-section data (117 manufacturing companies) and time series data (2015-2017 period). So this study uses the analysis panel path using e-Views software. The significance standard in this study was alpha 5%. The research model can be seen in the picture below:
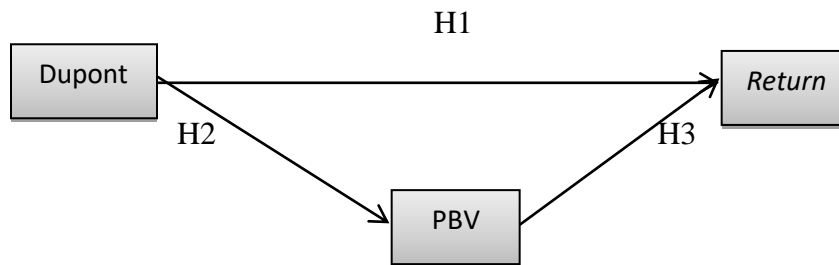
Figure 2.1. Research Model

Source: Writer (2019)

In the picture above shows the relationship between DuPont variables as exogenous variables, PBV variables as intervening variables, and return variables as endogenous variables.

3. FINDINGS

3.1 Descriptive Analysis

Based on table 3.1 below shows that the average return value of manufacturing companies listed on the Indonesia stock exchange in 2015-2017 is 292,2165. The maximum value of a company's return is 19900 while the minimum return for a manufacturing company is -7906. The return value that often appears in manufacturing companies is 6,0000.

The average value of financial performance with the DuPont system method in manufacturing companies listed on the Indonesia stock exchange in 2015-2017 is 5,452309. The highest value for DuPont system manufacturing companies is 385,6302, while the lowest value of manufacturing companies is -34.07704. The system DuPont value that often appears in manufacturing companies during the 2015-2017 period is 2,065916.

The highest company value in manufacturing companies listed on the Indonesian stock exchange in the 2015-2017 period was 82.44000, while the lowest corporate value of manufacturing companies was -1.17 million. The average value of a company in a manufacturing company is 3.755050. The value of the company that often appears in manufacturing companies is a value of 1.26 million

Table 3.1. Descriptive Analysis Result

Variable	Maximum	Minimum	Mean	Median
Dupont	385,6302	-34,07704	5,452309	2,065916
Firm Value	82,44000	-1,170000	3,755050	1,260000
Return	19900	-7906	292,2165	6,0000

Source: Data Process with e-Views software

3.2. Path Panel Analysis

From the results of testing of 117 manufacturing companies listed on the Indonesia stock exchange in 2015-2017 the following results were obtained:

Table 3.2.1. Research Model

Dependent Variable	Model 1	Model 2	Model 3
Firm Value	β=0,043 (t=2.026304, Sig=0,0436)		
Return		β=4,617811 (t=0,939623, Sig=0,3482)	β=89,36 (t=7,305999, Sig=0,0000)
R2	0,013	0,0029	0,152
Sig. F	0,0436	0,3482	0,0000

Source : Output e-Views 2019

From the table above, we can find the equation of direct influence as follows:

1. The first equation, Company value = 3,52040 + 0,043 + e
2. The second equation, Return = 267,0388 + 4,617811 + e
3. The third equation, Return = -43,24432 + 89,36 + e

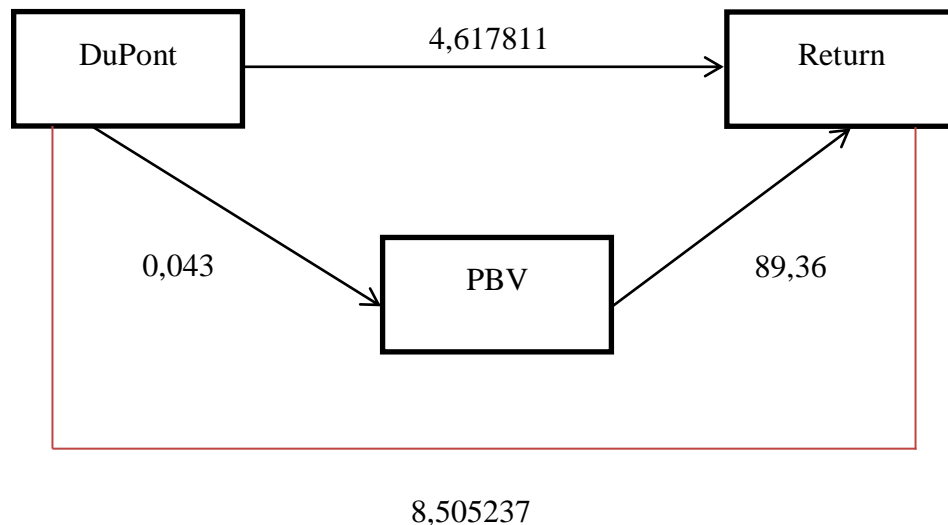**Table 3.2.2. Total effect**

	Direct effect	Indirect effect	Total Effect
X.Z	0,043*		
X.Y	4,617811		4,617811
Z.Y	89,36*		
X.Y(Z)		8,5052375*	8,5052375
Total Effect			13,1230485

Source : Output e-views 2019

Description: * Influences the significance of 0.05

From table 3.2.2 it can be seen that the effect of financial performance on stock returns through firm value is better than the direct effect of financial performance on stock returns. The results in the table above are included in the research model are as below:

Figure 3.2: Empirical Model of research result

Based on the results of path panel analysis if the data in table 3.2.2 can be concluded that::

- Influence Financial Performance on stock return

H1 ≠ There is a positive and significant effect of financial performance variables on stock returns of manufacturing companies listed on the Indonesia stock exchange for the period 2015-2017

H0 = There is no positive and significant effect of financial performance variables on stock returns of manufacturing companies listed on the Indonesia stock exchange for the period 2015-2017

- Influence Financial Performance on firm value

H2 = There is a positive and significant effect of financial performance variables on the value of manufacturing companies listed on the Indonesia stock exchange for the period 2015-2017

H0 ≠ There is no positive and significant effect of financial performance variables on the value of manufacturing companies listed on the Indonesia stock exchange for the period 2015-2017

- Influence Firm Value on Stock return

H3 = There is a positive and significant influence on the firm value variable on the stock returns of manufacturing companies listed on the Indonesia stock exchange for the period 2015-2017

H0 ≠ There is no positive and significant effect of the firm value variable on stock returns of manufacturing companies listed on the Indonesia stock exchange for the period 2015-2017

- Influence Financial Performance on stock return through firm value

H4 = There are indirect effects of financial performance variables on stock returns through firm value in manufacturing companies listed on the Indonesia stock exchange in 2015-2017.

H0 ≠ There is no indirect effect of financial performance variables on stock returns through firm value in manufacturing companies listed on the Indonesia stock exchange in 2015-2017.

4. DISCUSSION

a. Influence financial performance on stock return

Based on the results of the above tests it was found that the significance value was 0.3482> than 0.05 which indicates that there was no effect on financial performance variables on stock returns. This result shows that the first hypothesis is rejected. The results of this study are equivalent to previous research conducted by Budialim (2013) which states that return on equity has no effect on stock returns. This research shows that investors do not pay attention to financial performance in the decision to purchase shares of the company. The results of this study are also in line with the research conducted by Maryyam (2016) which states that ROA has a positive and significant effect on stock returns.

b. Influence financial performance on firm value

Based on the results of the above tests it was found that the significance value was 0.0436 <0.05 which indicates that the financial performance variable had a positive and significant

effect on the firm's value. The results of this study are equivalent to previous studies conducted by Putri (2015) and also Deswanto (2018) which states that the value of financial performance has a positive and significant effect on firm value.

c. Influence Firm value on stock return

Based on the results of the above tests it was found that the significance value was 0.0000 <0.05, this indicates that the value of the company has a positive and significant effect on stock returns. This result is in accordance with the research hypothesis which states that there is a positive and significant influence of the company's value on stock returns. The results of this study are equivalent to the previous research conducted by Pamandanu (2011) which states that firm value has a positive and significant effect on stock returns.

d. Influence financial performance on stock return through firm value.

From the results of the test above there is an indirect effect coefficient of 8.502375, while the direct effect of the financial performance coefficient on stock returns is 4.671811. Because the coefficient of indirect influence is greater than the coefficient of direct influence, there is an indirect effect of financial performance on stock returns through firm value. These results indicate that the research hypothesis is accepted which states that there is an indirect effect of company value on financial performance through firm value. This result becomes an update in the financial field regarding the indirect effect of financial performance variables on stock returns with firm value as a mediating variable.

5. CONCLUSION

Based on the results of the above research it can be concluded that there is an influence of financial performance on the value of the company in manufacturing companies in Indonesia. The value of the company has an influence on the stock returns of manufacturing companies in Indonesia. In addition, the effect of financial performance on stock returns will be better if through the value of the company first than directly influence. This shows that investors in addition to paying attention to financial performance must also pay attention to the value of the company in the process of making investment decisions in order to obtain returns on investment decisions made by investors.

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