

EFFECT OF FINANCIAL PERFORMANCE ON STOCK RETURN DURING COVID-19

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Abstract

This study aims to provide a conceptual study of the effect of financial performance on stock returns during the Covid-19 pandemic. This is evidenced by testing the effect of Earning Per Share (EPS), Operating Cash Flow (OCF), Return On Assets (ROA), and Debt to Assets Ratio (DAR) as independent variables on stock returns in companies listed on the LQ index. 45 Indonesia Stock Exchange. Previous theoretical studies show that stock returns are influenced by the company's financial performance. From the theoretical discussion and previous research, it is concluded that there is a positive influence on the company's financial performance on stock returns. Where there is a decrease in stock returns during the Covid-19 pandemic which is influenced by a decrease in the company's financial performance compared to before the Covid-19 pandemic.

Keywords: Financial Performance, EPS, OCF, ROA, DAR, Return Stock

1. Introduction

In investing, stock return is a measure seen by investors who will invest in a company. The concept of return is the level of profit enjoyed by investors on an investment they make (Robert Ang, 2001). In capital market theory, the rate of return received by an investor from shares traded in the capital market (shares go public) is usually termed return. Stock return is the income earned by shareholders as a result of their investment in a particular company. Return on ownership of securities, especially shares, can be obtained in two forms, namely dividends and capital gains (the difference between the selling price of the shares above the purchase price).

An investor will certainly invest in companies that have good performance. Therefore, measuring the company's performance is needed to determine the company's success in maximizing the wealth of its shareholders and as a benchmark for investors in determining decision making in investing in the company. In this case, the research object is selected companies listed on the LQ 45 Index on the Indonesia Stock

Exchange. The stock price shows the company's performance which moves in line with the company's performance. So that if the IDX company has good performance, it can improve the company's performance as reflected in the company's financial statements, so that investors will be interested in investing in IDX indexed companies. High stock returns will provide a high rate of return to investors and vice versa. There are several factors that affect stock returns, namely; Earnings Per Share (EPS), Operating Cash Flow (OCF), and Return on Assets (ROA), and Debt to Assets Ratio (DAR).

2. Research Issue

The Covid-19 pandemic has had a negative impact on various aspects of life, not only health but also the economy. The Minister of Finance predicts a decline in the national economy to minus 2 percent in the third quarter of 2020. This condition caused a prolonged recession resulting in a decline in the JCI in 2020, although it had strengthened in several periods and temporarily frozen trading in the capital market (IDX 2020). This condition weakens people's purchasing power, lowers the

level of investment in the capital market so that the stock price listed on the IDX declines (Oktavia et al., 2021). In research (Rahmi et al., 2018) simultaneously Earning Per Share, Price Earning Ratio, Debt to Equity Ratio, Return On Assets, and Net Profit Margin have a positive and significant effect on Stock Return of 63.2%.

To prove whether these events have more impact on the conditions of the Indonesian capital market, a test of the information content of these events will be carried out using an event study. Nurmasari (2020) empirically proves that there has been a decline in share prices and an increase in transaction volume at PT Ramayana Lestari Sentosa, Tbk for the difference 31 days before and 31 days after the announcement of the first case of Covid-19. This research was conducted due to the lack of research on the impact of Covid-19 on stock returns and stock trading volume activities of companies listed on the IDX index. Gunawan and Jati (2012) who examined the Effect of Financial Ratios on Stock Returns in Investment Decision Making, it can be concluded that Earning Per Share (EPS) has a significant effect on stock returns.

3. Literature Review

3.1. Signal Theory

Signal theory is a theory that explains that good financial statements are a signal or sign that the company has also been operating well. A good signal will be responded well by the other party. According to (Wijaya, 2012), the signaling theory states that good quality companies will intentionally give signals to the market, thus the market is expected to be able to distinguish good and bad quality companies. In order for the signal to be effective, it must be able to be captured by the market and perceived well, and not easily imitated by poor quality companies. Market participants usually interpret and analyze whether the information is a good signal (good news) or a bad signal (bad news). If the announcement of the information is a good signal (good news) for investors, there will be a change in the stock price, the stock price will increase so that the rate of return will increase.

3.2. Stock Price

The stock price is the price set for a company to parties who want to take part in owning share ownership rights. The value of the share price can change at any time. Changes in the value of stock prices are strongly influenced by demand and supply factors made by sellers and buyers. The stock price is the closing price in the stock trading period. Stock price movements are always observed by investors to be used as samples in their observations. One of the goals of financial managers is to maximize the value of the company. This goal will be achieved by companies that go public by maximizing the value of their share prices. In the country's macro economy, stock prices are an indication of the economic condition of the country concerned in the industry they are involved in (Putri, 2020). Information about which companies will bring profits or losses to investors can be viewed from the factors that influence stock price movements, namely internal factors and external factors (Agustina and Sumartio, 2014).

3.3. Effect of Earnings Per Share (EPS) on Stock Return

Earnings Per Share (EPS) is a comparison between net income after tax in one financial year with the number of shares issued. The higher the Earning Per Share (EPS), the greater the profit provided to shareholders. The greater the profit provided, the more investors will be interested in investing. High Earning Per Share (EPS) will give a signal in the form of information that is very helpful for investors, Earning Per Share (EPS) information can describe the prospect of a company's earnings in the future. This results in increased demand for shares and stock returns will also increase. If the stock price increases, the rate of return will increase. Riyanti (2012), who examined the relationship between earnings per share (EPS) on post-IPO stock returns, stated that earnings per share had a positive effect on stock returns. Supported by Putra and Kindangen (2016) regarding the Effect of Earning Per Share (EPS) on stock returns.

H1: Earnings Per Share (EPS) has a positive effect on Stock Return during Covid-19

3.4. Effect of Operating Cash Flow (OCF) on Stock Return

Operating Cash Flow (OCF) can be used as an early warning signal against a setback or progress in a company's financial condition by comparing it with the previous year. A company that has a good Operating Cash Flow (OCF), means that the company has cash that can be used to support the company's operational activities in order to generate high profits. The greater the profit available to shareholders, the more investors will be interested in buying the company's shares, so that the share price will increase and this will result in an increase in the rate of return that investors will receive. Cheng, Liu, and Schaefer (1997) concluded in their research that cash flow has a significant effect on stock returns. Miranda et.al (2003), examining the relationship between Operating Cash Flow (OCF) and the rate of return (ROR) in companies listed on the IDX, found that OCF has a significant effect on the rate of return.

H2: Operating Cash Flow (OCF) has a positive effect on Stock Return during Covid-19

3.5. Effect of Return of Assets (ROA) on Stock Return

Return on Assets (ROA) is one of the ratios to measure the company's profitability, namely by dividing net income by the average total assets. Profitability ratios reflect the company's financial performance, especially in generating profits that will add value to the company. Return on Assets (ROA) is a comparison between net income and total assets which shows how much net profit the company gets when measured by the value of its assets. The increasing value of return on assets indicates that the company's profit level is getting better. Watung and Ilat (2016) explain that Return on Assets (ROA) has a positive and significant effect on stock prices.

H3: Return of Assets (ROA) has a positive effect on Stock Return during Covid-19

3.6. Debt to Total Assets Ratio (DAR)

Debt to Asset Ratio is a debt ratio used to measure the ratio between total debt and total assets. In other words, how much the company's assets are financed by debt or how much the company's debt affects asset management. Meanwhile, according to (Lukman Syamsuddin, 2009) states that this ratio measures how much assets are financed by creditors. The higher the

debt ratio, the greater the amount of loan capital used in generating profits for the company. Tobbianto, et al., (2019) shows that the Debt to Total Assets Ratio (DAR) has a significant effect on stock prices in companies listed in the food and beverage sub-sector listed on the Indonesia Stock Exchange in 2015-2019.

H3: Debt to Total Assets Ratio (DAR) has a positive effect on Stock Return during Covid-19

4. Research Methodology

4.1. Population and Research Sample

The population used in this study is the company's shares listed on LQ 45 during the years 2019-2020. The sampling technique in this study used a purposive sampling technique. Purposive sampling is a sampling technique using predetermined considerations or criteria. The criteria for determining the sample in this study, including the following:

- Companies indexed in LQ 45 shares.
- Companies that issue annual financial reports for the year 2020.

4.2. Types and Sources of Data

This study uses secondary data. Secondary data is data that has been collected by data collection agencies and published to the public using data. The secondary data used in this study is data in the form of financial statements of companies in the LQ 45 index listed on the IDX in the period 2020.

4.3. Data Analysis Techniques

Analysis techniques in research. Descriptive statistical analysis is used to provide an overview of the research variables regarding the phenomena or characteristics of the data. Meanwhile, classical assumption test and regression analysis. The analytical method in this study uses multiple linear analysis. Consists of descriptive analysis and statistical analysis. Previously, descriptive statistical tests and classical assumptions were tested. Statistical analysis carried out is testing with panel data using SPSS. Multiple linear regression analysis with the following formula:

$$Y = + 1 \text{ EPS} + 2 \text{ OCF} + 3 \text{ ROA} + 4 \text{ DAR} + 5 \text{ Size} + e$$

Y : Return Share

A : Constant

- B : Regression coefficient (increase or decrease value)
 X1 : *Earning Per Share* (EPS)
 X2 : *Operating Cash Flow* (OCF)
 X3 : *Return of Assets* (ROA)
 X4 : *Debt to Total Assets Ratio* (DAR)
 X5 : *Variable Control (Size)*
 e : *Error*

4.4. Descriptive Analysis Test

a. Normality Test

The normality test aims to test whether the regression model, confounding variable or residual has a normal distribution. A good regression model is to have a normal distribution or close to normal. There are two ways to detect whether the residuals are normally distributed or not, namely by graphical analysis and statistical tests. The normal distribution will form a straight diagonal line, and plotting the residual data will be compared with the diagonal line. If the residual data is normal, then the line that describes the actual data will follow the diagonal line (Ghozali, 2016).

1) Multicollinearity Test

Multicollinearity test aims to test whether the regression model found a correlation between the independent variables (independent). Multicollinearity testing is a test that aims to test whether in the regression model there is a correlation between the independent variables. The effect of this multicollinearity is to cause a high variable in the sample. This means that the standard error is large, as a result, when the coefficient is tested, the t-count will be smaller than the t-table. This shows that there is no linear relationship between independent variable that is influenced by the dependent variable. To find the presence or absence of multicollinearity in the regression model, it can be seen from the tolerance value and the Variance Inflation Factor (VIF) value. Tolerance measures the variability of the selected independent variables that cannot be explained by other independent variables. So a low tolerance value is the same as a high VIF value (because $VIF = 1/\text{tolerance}$) and indicates a high collinearity. The commonly used cut off

The use of the Descriptive Analysis Test is intended to obtain a systematic, factual, and accurate description of a fact so that it can be interpreted correctly to analyze the problem under study, and the right conclusions can be drawn (Naibaho, 2013). The function of Descriptive Analysis is to provide an overview or description of a data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (skew of distribution).

Value is a tolerance value of 0.10 or equal to a VIF value above 10 (Ghozali, 2016).

2) Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another observation. If the residual variance from one observation to another observation remains, it is called homoscedasticity, and if it is different it is called heteroscedasticity. A good regression model is the one with homoscedasticity (Ghozali, 2016).

The method used to detect the presence or absence of heteroscedasticity is to look at the graph plot between the predicted value of the dependent variable (ZPRED) and the residual (SRESID). Detection of the presence or absence of heteroscedasticity can be done by looking at the presence or absence of certain patterns on the scatterplot graph between SRESID and ZPRED where the Y axis is the predicted Y, and the X axis is the studentized residual (Ghozali, 2016).

3) Autocorrelation Test

According to Ghozali (2016) autocorrelation testing aims to test whether in a linear regression model there is a correlation between the confounding error in period t and the error in the previous period ($t-1$). Autocorrelation arises because successive observations over time are related to one another. This problem arises because the residual (interference error) is not independent from one observation to another. There are several ways to detect the presence or

absence of autocorrelation, one of which is by using a Run Test. Run Test is used to see whether the residual data occurs randomly or not systematically. Decision making in the Run Test test is as follows:

- a) If the results of the Run Test show a significant value less than 0.05, it can be concluded that the residuals are not random or there is an autocorrelation between the residual values.
- b) If the results of the Run Test show a significant value greater than 0.05, it can be concluded that the residuals are random or there is no autocorrelation between the residual values.

b. Hypothesis Test

1) Coefficient of Determination (R²)

The coefficient of determination (R²) serves as a test to measure how far the model's ability to explain variations in the dependent variable is. The value of the coefficient of determination is between zero and one. When the value of R² is small, it means that the ability of the independent variables to explain the dependent variable is very limited. When the value is close to one, it means that the independent variables provide almost all the information needed to predict the variation of the dependent variable (Ghozali, 2016).

To determine the best model, the researchers recommend using the Adjusted R Square value. The coefficient of determination can be seen in the Model Summary table in the Adjusted R Square table. The value of Adjusted R Square shows how much the dependent variable can be explained by the independent variable (Ghozali, 2016).

2) Uji Kelayakan Model/Goodness of Fit (F test)

The F test is used to determine whether all independent variables simultaneously will have a significant effect on the dependent variable. If the F-statistic is greater than the F-table, then the regression equation is significant. A model is considered significant if the probability value of Prob

(F-Statistic) is less than 5%, therefore the lower the value, the better (Ghozali, 2016).

3) Partial Test (t test)

According to Ghozali (2016) the partial test basically shows to determine the effect of each independent variable on the dependent variable. The level of significance used is at 0.05. The criteria for accepting or rejecting H₀ are as follows:

- a) If $t \text{ count} < t \text{ table}$ or $-t \text{ count} > -t \text{ table}$, then H₀ is accepted.
- b) If $t \text{ count} > t \text{ table}$ or $-t \text{ count} < -t \text{ table}$, then H₀ is rejected.

With decision making criteria based on p-value at 95% confidence level or significant level of 0.05 are as follows:

- a) If $p\text{-value} > 0.05$, then H₀ is accepted. That is, it does not have a significant effect partially.
- b) If the $p\text{-value} < 0.05$, then H₀ is rejected. That is, there is a partially significant effect.

c. Multiple Linear Regression Test

Multiple Linear Regression Test is used to examine the effect of independent variables (earnings per share, operating cash flow, return on assets, and debt to total asset ratio) on the dependent variable (stock returns) either simultaneously or partially.

5. Discussion

Research conducted by Riyanti (2012) which examines the relationship between Earnings Per Share (EPS) on Post-IPO Stock Returns, states that Earnings Per Share has a positive effect on stock returns. Supported by research (Putra and Kindangen, 2016) regarding the Effect of Earning Per Share (EPS) on stock returns. In contrast to Susilowati (2011) who examined the effect of Earning Per Share (EPS) on stock returns, it shows that Earnings Per Share (EPS) does not have a significant effect on stock returns. Research by Gunawan and Jati (2012) which examines the Effect of Financial Ratios on Stock Returns in Investment Decision Making, it can be concluded that Earning Per

Share (EPS) has a significant effect on stock returns.

Research (Cheng, Liu, and Schaefer, 1997) concluded in his research that cash flow has a significant effect on stock returns. Research by Miranda et.al (2003), examining the relationship between Operating Cash Flow (OCF) and the rate of return (ROR) in companies listed on the IDX, found that OCF has a significant effect on the rate of return. (Winarno, 2013) who examined the Effect of Operating Cash Flow on Stock Returns, found that Operating Cash Flow was not significant on stock returns. (Mutmainah, 2016) The test results show that performance appraisal with the conventional concept, namely the Operating Cash Flow (OCF) analysis has a significant positive effect on the rate of return.

In the research of Watung and Ilat (2016), Return on Assets (ROA) has a positive and significant effect on stock prices. In research (Nurlia, 2016) stated that Return on Assets, partially positive and significant effect on stock returns in Automotive and Component Sub-Sector Companies listed on the Indonesia Stock Exchange. While Emalia (2016), Return on Assets (ROA) has a positive and insignificant effect on stock returns.

Research (Tobbiato, et al., 2019) based on the results of the t-test in this study, shows that the Debt to Total Assets Ratio (DAR) has a significant effect on stock prices in companies listed in the food and beverage sub-sector listed on the Indonesia Stock Exchange in 2015- 2019.

6. Conclusion

Based on the results of data analysis on the effect of earnings per share, operating cash flow, return on assets, and debt to total asset ratio on stock returns in companies indexed in LQ45 shares listed on the Indonesia Stock Exchange during the Covid-19 pandemic , it can be concluded as follows: Earning Per Share does not have a significant effect on stock returns. This is evidenced by the positive value of the t-test on EPS of 1.423 and a significance value of 0.167, greater than the error tolerance = 0.05 (Ha is rejected). Results that are not statistically significant indicate that H0 is accepted, so during the Covid-19 pandemic

earnings per share cannot be used to predict stock returns in companies indexed in LQ45 shares listed on the Indonesia Stock Exchange in 2020.

- a. Operating Cash Flow has a significant effect on stock returns. This is evidenced by the negative value of the t test on OCF, which is -2.894 and a significance value of 0.008 is obtained, which is smaller than the error tolerance = 0.05 (Ha is accepted). A statistically significant result indicates that H0 is rejected, so during the Covid-19 pandemic operating cash flow can be used to predict stock returns in companies indexed in LQ45 shares listed on the Indonesia Stock Exchange in 2020.
- b. Return on Assets has a significant effect on stock returns. This is evidenced by the positive value of the t-test on ROA of 2.402 and a significance value of 0.024 is obtained, which is smaller than the error tolerance = 0.05 (Ha is accepted). A statistically significant result indicates that H0 is rejected, so during the Covid-19 pandemic return on assets can be used to predict stock returns in companies indexed in LQ45 shares listed on the Indonesia Stock Exchange in 2020.
- c. Debt to Total Asset Ratio has a significant effect on stock returns. This is evidenced by the positive value of the t-test on DAR of 2.067 and a significance value of 0.049 is obtained, which is smaller than the error tolerance = 0.05 (Ha is accepted). A statistically significant result indicates that H0 is rejected, so during the Covid-19 pandemic the debt to total asset ratio can be used to predict stock returns in companies indexed in LQ45 shares listed on the Indonesia Stock Exchange in 2020.
- d. The results of the analysis using the F test in this study indicate that earnings per share, operating cash flow, return on assets, and debt to total asset ratio which are controlled by firm size (size) have a simultaneous effect on stock returns. This can be proven by the calculated F value of 3.385 with a significance value of 0.018. The significance value is less than 0.05, so Ha is accepted and H0 is rejected. The adjusted R-Square value

in this study obtained a value of 0.284. This shows that stock returns are influenced by earnings per share, operating cash flow, return on assets, and debt to total asset ratio of 28.4%, while the rest 71.6% dipengaruhi oleh variabel lain selain variabel yang diajukan dalam penelitian ini.

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