

The Impact Analysis of Fundamental Factors on The Return of Construction Company Shares

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Abstract: The purpose of the research was to analyze the effect of *Debt To Equity Ratio* (DER) on stock return, *Return On Assets* (ROA) on stock return, *Total Assets Turn Over* (TATO) on stock return, *Net Profit Margin* (NPM) to return on shares, and *Debt To Equity Ratio* (DER), *Return On Assets* (ROA), *Total Assets Turn Over* (TATO), and *Net Profit Margin* (NPM) simultaneously affect the return of shares in companies actively listed in LQ 45 on the Indonesia Stock Exchange for the period 2011-2018. The sample used is a *building construction* company registered in the IDX period 2011-2018. Research method with panel data regression. The results showed that DER negatively and significantly affects the return of shares, ROA has no significant effect on the return of shares, there is no significant influence of TATO on the return of shares, NPM has a significant effect on the return of shares of building *construction* companies listed in the IDX period 2011-2018.

Keywords: *Debt To Equity Ratio, Return On Assets, Total Assets Turn Over, Net Profit Margin, stock return*

1. Introduction

The share market price reflects the value of the company's ability to generate profit and dividends. The share price in the capital market can be influenced by several factors both internal as well as external factors. The company's internal factor comes from the level of profitability in the company in the future, while the external factor can be updated the rate of inflation and risk-free interest rates (Husnan, 2002). Stocks that go public as an investment commodity have their uniqueness, because of their very fake nature to the changing business environment. These changes can have a positive or negative impact. Stock investment decisions must be preceded by an analysis of variables that are expected to affect the share price.

The return value of each security varies from one to another. Not all securities will provide the same return for investors. The return of security is determined by many things such as the company's performance and the company's strategy of managing its profits. The Company is deemed to have failed financially if the company is unable to pay its obligations at maturity even though the total assets exceed its total liabilities at maturity. Conditions that make investors and creditors feel worried if the company has financial distress that leads to bankruptcy. If the company is indicated to have failed financially, it means that the company is unable to generate profitable returns for investors and in the end, its share price will decrease (Prawira, 2006).

Income from stock investments or returns can be capital gains *dividends*. *Dividends* are receipts from companies derived from the profit distributed, while *capital gains* are income derived from the difference in the share price. If the price difference is negative, investors experience *capital loss* and vice versa. Investors often want an immediate profit so they want more profit in the form of capital gains than dividends (Bandi & Hartono, 2000).

Investment is a commitment to several funds or other resources made at this time to obtain several profits in the future (Tandelilin, 2001). The profit can be in the form of cash receipts (dividends) or an increase in the value of investment (capital gain). The goal that investors want to achieve in capital market investment activities is to get optimal returns. Investors are often focused only on their expectations of high returns on investments made and pay less attention to risk factors. Whereas *return* that investors expect to have a positive relationship with the level of risk faced, meaning the greater the risk that must be borne, the greater the *compensated return* (Bandi & Hartono, 2000). Smart investors will analyze events affecting the share price to provide an overview of the expected rate of return.

Investors will invest their funds through the capital market if there is a feeling of security about the investment. This can be obtained by investors by obtaining and analyzing inf clear or about the company's performance. The measures used to assess performance vary and sometimes differ between one industry and the industry. A measuring instrument commonly used by investors or managers during this time is the financial ratio. The results of financial performance obtained continue to change, where the company's performance increases and decreases. The company's financial performance shows a fairly good condition, where the quick ratio value is close to the minimum standard and the profitability ratio continues to increase (Ismayanti, Hidayat, & Sulasmiyati, 2015).

To attract investors to participate in the capital market, the capital market must be fast efficient, and liquid. The capital market is said to be liquid if sellers and buyers can transact quickly. According to Rosyadi in Murtini & Mareta (2006) states that the capital market will be informationally efficient if the price of its securities reflects all relevant information. The more precise and fast the information to potential investors and reflected in the stock price, the capital market in question will be more efficient. Therefore, incorrect and incorrect information will mislead investors into investing in securities.

Stock return analysis can be done using the basic approach of fundamental analysis and technical analysis. According to Halim (2005) fundamental analysis is more comparing between a market price and a stock to determine whether the stock market price can already reflect its intrinsic value or not. It also focused on a key statement in the company's financial statements, to consider whether a share price has been properly and appropriately appreciated. Where the value of this intrinsic is determined by fundamental factors.

The approach of the share price in IDX greatly influences the decisions of investors when it is to decide their investments. Investors need clear information either individually or in groups. Considering the movement of the stock price requires a lot of identification and a detailed source of information. Especially at the closing share price, where the share price last time at the time of the change of hands ended in trading. The closing price will probably be the market price (Halim 2005), fundamental analysis seeks to estimate the future share price by estimating the value of fundamental factors by applying a variable criteria relationship so that it will obtain an estimated share price.

The share price becomes a reference for investors to make investments, because the higher the share price, the higher the value of the company. Conversely, if the share price is lower than the value of the company will be lower too, therefore every company that orbits and shares should pay attention to the share price in the capital market. Stock prices often change according to the level of supply and demand. Due to the volatile share price, an investor who invests should know if the share price in the market reflects the true value of the company. An investor should also be more active in looking at the development of the share price as well as the financial ratio of the company concerned. This aims to find out if the share price offered is *too high (overvalued)* or *too cheap (undervalued)*.

The results of previous research prove that *Total Asset Turn Over (TATO)*, *Current Ratio (CR)*, *Debt to Equity Ratio (DER)*, and *Return on Equity (ROE)* influenced Stock Return on manufacturing sector companies on the Indonesia Stock Exchange in the period 2013-2015. Partial results with the t-test showed that the *variables Total Asset Turn Over (TATO) and Return on Equity (ROE)* affected Stock Return (Fitri, 2018). *The dividend payout ratio does not affect stock return*, while the price to earnings ratio and *beta* affect the stock return. So, investors can consider variable price to earnings ratio and beta to predict the expected share return rate (Devaki, 2017). According to Astuti (2006:70), the fundamental factors affecting stock return are Current Ratio, Price to Book Value (PBV), and Total Assets Turnover (TATO). According to Pratiwi (2011:71), factors that influence stock returns in his research are Economic Value Added (EVA), Return On Equity (ROE), and Return On Assets (ROA).

Based on the explanation above, *Debt To Equity Ratio (DER)*, *Return On Assets (ROA)*, *Total Assets Turn Over (TATO)*, and *Net Profit Margin (NPM)* affect stock returns.

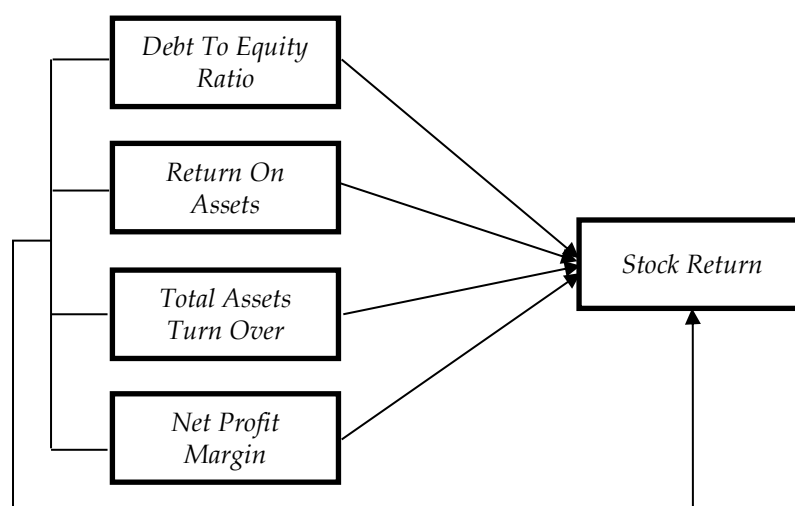


Figure 1. Research Paradigm

2. Research Method

Panel data regression analysis is a regression analysis based on panel data to observe the relationship between one dependent variable with one or more independent variable independent variables (Nyoman and Neneng, 2009). In general, by using the data panel we will produce different interceptions and slope coefficients on each company and each period. The regression equation is as follows:

$$Y_{it} = \beta_0 + \beta_1 DER_{it} + \beta_2 ROA_{it} + \beta_3 TATO_{it} + \beta_4 NPM_{it} + u_{it}$$

Description:

Y_{it} = stock return

b_0 = Constanta

β_{1-3} = regression coefficient

DER_{it} = variable Debt to Equity Ratio *in* unit I at the period t

ROA_{it} = variable Return On *Assets in* unit to I in period t

$TATO_{it}$ = variable Total Asset Turn Over *in* units to I in period t

NPM_{it} = variable Net Profit Margin *in* unit to I in period t

u_{it} = residue or disruptive variable

3. Results and Discussion

3.1. Results

Table 1.
Output Regression Data Panel with Fixed Effect Model

Dependent Variable: RS

Method: Panel EGLS (Cross-section SUR)

Date: 09/08/19 Time: 16:40

Sample: 2011 2018

Periods included: 8

Cross-sections included: 6

Total panel (balanced) observations: 48

Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.117059	0.090876	1.288123	0.2055
The	0.063885	0.021906	2.916355	0.0059
NPM	0.014740	0.005238	2.813920	0.0077
ROA	-0.022122	0.020535	-1.077325	0.2881
This	-0.141338	0.157601	-0.896813	0.3755
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.572182	Mean dependent var	0.724187	
Adjusted R-squared	0.470856	S.D. dependent var	1.484679	
S.E. of regression	1.064056	Sum squared resid	43.02414	
F-statistic	5.646968	Durbin-Watson stat	2.240548	
Prob(F-statistic)	0.000061			
Unweighted Statistics				
R-squared	0.224356	Mean dependent var	0.328125	
Sum squared resid	6.793503	Durbin-Watson stat	2.688954	

Source: Research Data processed

Der value of 0.0639 indicates that if DER increases by one unit, the return on shares will increase by 0.0639 assuming other variables are constant. This indicates that DER and stock

returns show a positive relationship meaning that any increase in DER will be followed by an increase in stock returns. The probability value (Sig.) t calculates the DER-independent variable of 0.0059 meaning that the value is less than 0.05 ($0.0059 < 0.05$), so the DER variable has a significant influence on the bound variable return of the stock. ROA of -0.0221 indicates if the ROA increases by one unit, then the return of the stock will decrease by 0.0221 assuming another variable constantly. This indicates that ROA and stock returns show a non-negative relationship meaning that any increase in ROA will be followed by a decrease in stock return. Probability value (Sig.) t calculate ROA-independent variable of 0.2881 means that the value is greater than 0.05 ($0.2881 > 0.05$) so that the ROA variable does not have a significant positive effect on the variable bound to the return of the stock.

TATO of - 0.1413 indicates that if the TATO increases by one unit, then the return on the stock will decrease by 0.1413 assuming other variables are constant. This indicates that TATTOOs and stock returns show a relationship that is not in a negative direction (negative) meaning that any increase in TATO will be followed by a decrease in the return of the stock. The probability value (Sig.) t calculates the TATO-independent variable of 0.3755 meaning that the value is greater than 0.05 ($0.3755 > 0.05$), so the TATO variable has no significant positive effect on the bound variable stock return. NPM of 0.0147 indicates that if the NPM increases by one unit, the return on shares will increase by 0.0147 assuming other variables are constant. This indicates that NPM and stock returns show a positive relationship meaning that any increase in NPM will be followed by an increase in stock returns. The probability value (Sig.) t calculates the NPM-independent variable of 0.0077 meaning that the value is less than 0.05 ($0.0077 < 0.05$), so the NPM variable has a significant positive effect on the stock return bound variable.

3.2. Discussion

The Effect of DER on Stock Returns

Debt to Equity Ratio (DER) shows the comparison between debt and own capital (Suad Husnan and Eny Pudjiastuti, 2002). It is a ratio used to measure the level of leverage in showing the company's ability to meet long-term liabilities, where the DER ratio connects between total debt and total equities (Farkhan and Ika, 2012). The higher the DER shows the greater the total debt to its total equity (Robert Ang, 1997). The higher the DER ratio, indicating the greater use of debt in corporate funding and the company's dependence on outside parties.

Dependence on outsiders increases the risks and burdens that must be borne by creditors. This will reduce the interest of creditors (investors) to invest in the company, thus lowering the company's share price resulting in stock returns.

The result of static analysis for the DER variable is known that the regression coefficient is a positive value of 0.0639. The results of t-test statistics for ROA variables obtained a probability value of 0.0059 so that it is less than the level of significance of $\alpha = 0.05$, it can be concluded that DER has a positive and significant effect on the return of construction company shares in 2011-2018. In other words, the increase in DER value will increase the return value of the stock. This is because the use of debt that is smaller than the capital itself will have an impact on increasing the value of the company itself.

The results of this study are in line with research conducted by Feny Wulandari (2012) on the analysis of the Effect of Financial Ratio to Stock Return on the LQ-45 Index on the Indonesia Stock Exchange which states that DER variables influence stock returns.

ROA Effect on Stock Return

Return On Asset (ROA) is a measure of the company's ability to generate profit (return) for the company by utilizing its assets. The bigger the ROA shows a better performance (Robert Ang, 1997). The higher the ROA value shows that the more efficient the company is utilizing its assets to earn a profit. The more efficient the company means the better the company's performance. The company's improved performance and increased value will give hope of rising share price of the company which will eventually lead to an increase in stock return (Saniman, 2007).

It is attractive for investors to own such shares. Because this increase will be enjoyed also by shareholders. Surely investors will be more interested in owning shares of companies that can generate higher profits. If many investors are interested, then the demand for the stock will increase and the share price will tend to increase followed by an increase in the return of its shares.

The result of static analysis for ROA variable is known that the regression coefficient is a negative value of 0.0221. The result of t-test statistics for the ROA variable obtained a probability value of 0.2881 so that it is greater than the level of significance of $\alpha = 0.05$, it can be concluded that ROA has no significant effect on the return of construction company shares in 2011-2018. This result indicates that the change in ROA value will contribute negatively to the return of the stock, i.e. the decrease in ROA value will have an impact on the decrease in stock return, the higher ROA value will contribute to the lower return on the stock will also contribute to the lower return on the stock.

The results of this study are consistent with research conducted by Priska Ika Setiyorini (2011), Agus Harjito and Rangga A (2009), and Atika Fatmawati (2013) who concluded that ROA variables do not influence stock returns.

Effect of TATO On Stock Returns

Total assets turnover is one of the ratios that shows the effectiveness of the use of assets of a company by comparing the number of sales of the company with all assets owned by the company. Thus, the value to be obtained from this analysis shows that each rupiah of the assets used will generate how many rupiahs of sales. The higher the effectiveness of the company is using assets for sales it will generate a greater profit assuming there is no loss in sales. Higher profits will have a positive effect on the company's performance. The higher the profit obtained by a company, it will attract investors to invest in the company. Thus, the demand for the company's shares will rise and have a positive effect on the return of shares. Based on the description, it can be concluded that total assets turnover has a positive effect on stock returns.

The result of t-test statistics for the *Variable Total Asset Turn Over* (TATO) obtained a significance value of 0.3755 greater than the fault tolerance $\alpha = 0.05$. Because the significance value is greater than 0.05 and the regression coefficient is negatively valued at 0.1413 it means that there is no significant influence of TATO on stock return. These results support research conducted by Zuraida and Early (2014) which stated that *Total Assets Turn Over* (TATO) does not affect the stock return. The results showed that the ratio of *Total Assets Turn Over* is not significant to the return of shares. Companies that do not use their assets effectively and efficiently will lower the *total value of turning over assets*.

The Effect of NPM on Stock Returns

Net Profit Margin (NPM) or margin on sales, is one of the ratios used to measure profit on sales margin. Based on the results of the study obtained that NPM has a significant effect on the capital structure of building *construction* companies listed in the IDX period 2011-2018. Where the test criteria are if the probability value of the test $t < \text{significant level of } 5\% (\alpha = 0.05)$. looks at the significance level in the NPM table have a significance level of 0.0077 which means $0.0077 > 0.05$. So it can be concluded that NPM affects stock return.

This condition supports the underlying theory that NPM shows the return on net profit to its net sales and at the same time demonstrates the efficiency of costs incurred by the company. So if the NPM is getting bigger or closer to one, then it means the more efficient the cost incurred so that the greater the return rate of net profit, the more the increase in NPM, then the attractiveness of investors is increasing so that the share price will also increase. The results of this study are not in line with the research of Catur Wulandari (2005) which stated that NPM does not have a significant influence on stock returns.

4. Conclusion

DER, ROA, TATO, and NPM simultaneously affect the return of shares in *building construction* companies listed on IDX period 2011-2018. DER has a positive and significant effect on the return of shares in *building construction* companies listed in the IDX period 2011-2018.

ROA has no significant effect on the return of shares in building *construction* companies listed in the IDX period 2011-2018. Changes in ROA value will contribute negatively to stock returns, i.e. the decrease in ROA value will have an impact on the decrease in stock returns, the higher ROA value will contribute to the lower return on the stock will also contribute to the lower return on the stock.

TATO has no significant effect on the return of shares in *building construction* companies listed on IDX period 2011-2018. *Total Assets Turn Over* is insignificant to the return on shares. Companies that do not use their assets effectively and efficiently will lower the *total value of turning over assets*.

NPM has a significant effect on the return of shares in *building construction* companies listed in the IDX period 2011-2018.

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