

Determinants of stock returns: evidence from property and real estate companies in Indonesia

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Abstract

This study examines the effect of the current ratio, debt-to-equity ratio, return on assets, and dividend payout ratio on stock returns in property and real estate companies listed on the Indonesian stock exchange for 2018-2022. This research employs a quantitative approach using secondary data from the companies' annual financial reports. The sample covers 11 property and real estate companies listed on the Indonesian stock exchange. The results show that the current ratio, debt-to-equity ratio, and return on assets do not significantly affect stock returns, whereas the dividend policy does.

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1. Introduction

The capital market serves as an alternative for companies seeking funding sources because the capital market is a facilitator that connects two parties, i.e., a party that needs funding and a party that has funds (investors). Consequently, the capital market becomes an important tool for companies (Santosa & Aprilyanti, 2020). The capital market also has an important role in economic development because it serves as a platform for companies to obtain funds from investors and provides a place for the public to invest in financial instruments (Permata & Ghoni, 2019). One of the financial instruments traded in the capital market is stocks, which can serve as an investment alternative for investors to place their capital in the capital market (Siregar et al., 2022).

Property and real estate sector stocks are among the choices for investors. Investing in property and real estate companies is potentially profitable because this industry typically involves long-term investments. Its growth is driven by rising land and building prices, and limited land availability. It is boosted by an increasing demand spurred by population growth, leading to a rising need for housing, shopping centers, office spaces, and other facilities (Nisak & Budiman, 2023). The property and real estate industry is among the important sectors in a country (Utama & Dana, 2019). It is expected to experience growth due to infrastructure development implemented by the government in recent years, making it an attractive investment. The current phenomenon indicates that the property and real estate industry is experiencing growth.

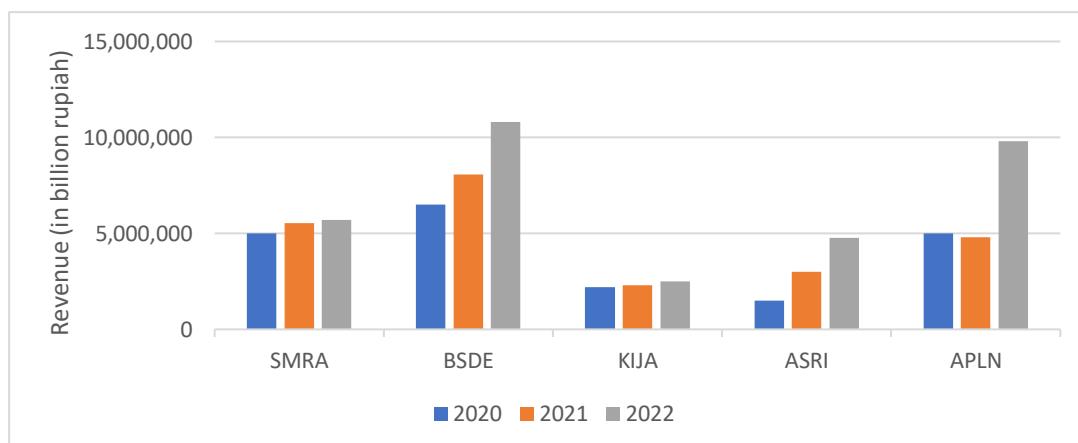


Figure 1. The sales growth of property and real estate sector companies

The sales of property and real estate subsector companies showed a decline in 2020, attributed to the COVID-19 pandemic faced by most countries. Between 2021 and 2022, its growth began to improve. Figure 1 illustrates how the property and real estate industries are experiencing sales growth. Growth is a factor that investors consider because it is a strategic move for investors who wish to invest wisely. An investor needs reliable and guaranteed information before deciding which investment to choose, considering various factors necessary to achieve the desired return (Handayani & Harris, 2019).

The desired returns for shareholders generally come in the form of dividend yield and capital gain. Investors who invest in stocks will earn a profit (capital gain) when they sell their shares and receive annual profit distributions (dividends) (Aryanti et al., 2022). The return on an investment is a primary consideration for achieving an optimal return while considering other risks associated with the investment (Antara & Suryantini, 2019). Stock return is an important performance indicator for investors because it serves as a reference in assessing whether investing in the stock market is profitable. Stock returns can increase, decrease, or fluctuate over time, typically influenced by several factors affecting stock investment results.

There are two types of influence: internal factors (originating from within the company and controllable by the management) and external factors (originating from outside the company and is beyond the control of the management) (Christian et al., 2021).

Various factors influence stock return movements. Investors can utilize fundamental analysis to obtain information about stock returns (Reza et al., 2019). Investors use fundamental analysis to consider making short-term and long-term investment decisions, both in the current and future periods. In fundamental analysis, it is important to analyze financial statements (Lutfiana et al., 2019), which serve as a guide to assess a company's performance (Savitri & Pinem, 2022). A financial ratio analysis is required to assess whether an investment will generate the desired return and the extent of potential losses (Pangestu & Wijayanto, 2020). Several financial ratios can be used to estimate stock returns, including liquidity, solvency, and profitability ratios. Besides financial ratios, dividend policy also plays a role in influencing stock return movements.

2. Literature review

2.1. Signaling theory

Signaling theory is an action a company's management takes that gives investors clues about how the management views the company's prospects (Siswanto, 2021). This theory explains why companies are motivated to provide information related to the company's financial reports to external parties. The reason is information asymmetry between management and external parties. The management has more information regarding the company's operations and future prospects than external parties, such as investors, creditors, underwriters, and other information users. Reducing the information asymmetry can be done by providing signals to external parties through financial reports containing credible or trustworthy financial information, furnishing certainty regarding the company's sustainability prospects in the future.

2.2. Stock return

Stock return is the investment outcome obtained from a stock investment. Generally, it can be in the form of results that have occurred at this time (realized return) or the desired results that can be realized in the future but have not yet materialized (expected return), which is calculated as follows (Jogiyanto, 2017):

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}}$$

2.3. Current ratio

The current ratio indicates how far a company can meet its short-term obligations through its current assets (Siswanto, 2021). A higher current ratio is better; a company with more current assets than short-term liabilities should be able to meet its short-term debt. However, a high current ratio also indicates the presence of idle current assets (Goel, 2016). The current ratio is calculated as follows (2016):

$$CR = \frac{\text{Current assets}}{\text{Current liabilities}}$$

2.4. Debt to equity ratio

A high debt-to-equity ratio indicates that a company has been actively funding its growth through borrowed funds. A low debt-to-equity ratio suggests that a company has not optimized

the profit potential that could be gained from larger borrowings (Goel, 2016). It is calculated as follows (Siswanto, 2021):

$$DER = \frac{\text{Total debt}}{\text{Total equity}}$$

2.5. Return on assets

Return on assets is a ratio to measure a company's ability to use all of its assets to generate profit after tax deduction. It indicates the efficiency of the assets used, calculated as follows (Siswanto, 2021):

$$ROA = \frac{\text{Net profit}}{\text{Total assets}}$$

2.6. Dividend policy

Dividend policy is proxied by the dividend payout ratio. According to Darmawan (2019), the dividend payout ratio is a percentage of the total dividends paid with the company's net profit. Usually, a company uses a part of its net profit to pay dividends to shareholders while the remaining is reinvested. Therefore, management must decide how much dividends to give from a certain net profit. The formula for calculating the dividend payout ratio is as follows (Triyonowati & Maryam, 2022):

$$DPR = \frac{\text{Total dividend}}{\text{Net income}}$$

2.7. Research hypotheses

The hypotheses are as follows:

Hypothesis 1: Current ratio significantly affects stock return.

Hypothesis 2: Return on assets significantly affects stock return.

Hypothesis 3: Debt to equity ratio significantly affects stock return.

Hypothesis 4: Dividend policy significantly affects on stock return

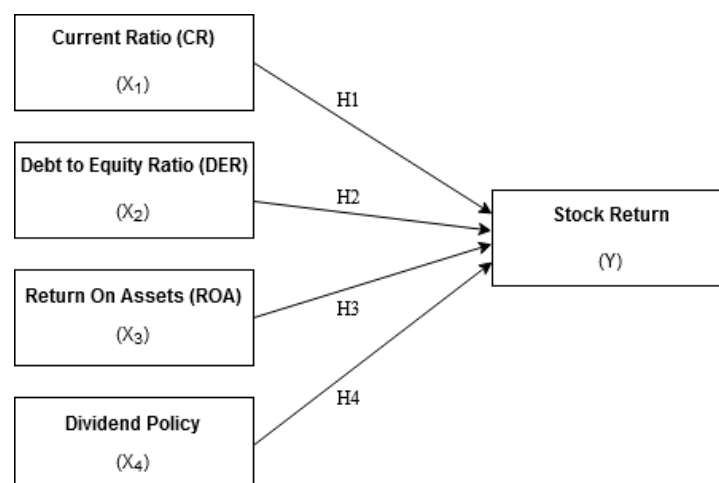


Figure 2. Research model

3. Methodology

This research uses a quantitative approach, utilizing secondary data. Data was collected from the financial statements of each company available on the official platform of the

Indonesia Stock Exchange (IDX). The population is 92 property and real estate companies listed on IDX from 2018 to 2022. We used purposive sampling, which is a sampling technique that considers predetermined criteria (Sugiyono, 2020). The criteria set in this study are property and real estate companies:

- 1) listed on the IDX consecutively from 2018 to 2022,
- 2) that distribute dividends and present complete financial reports during that period, and
- 3) that consistently earned profits during the said period.

11 companies met the criteria. We employed panel data regression analysis because the panel data used in this study combined time series and cross-sectional data. The analysis tool chosen to analyze the collected data is the Eviews 13 software.

4. Results and discussion

4.1. Descriptive statistics

The descriptive analysis consists of the mean, maximum and minimum values, and standard deviation obtained from each sample of property and real estate companies listed on IDX for 2018-2022.

Table 1. Descriptive statistics

Variables	Mean	Min	Max	Std. Dev.
Stock return	-0.020	-0.384	0.862	0.243
Current ratio	2.793	0.936	12.769	1.782
Debt to equity ratio	0.570	0.043	1.743	0.405
Return on asset	0.066	0.008	0.189	0.041
Dividend payout ratio	0.277	0.008	1.65	0.318

4.2. Hypothesis testing

This study utilizes the common effect model because it is the most appropriate and suitable for data analysis based on the Chow and Lagrange multiplier tests. The regression equation for panel data between the dependent and independent variables is arranged in the following equation:

$$SR = 0.1280 - 0.0223*CR - 0.1266*DER - 1.3254*ROA + 0.2660*DPR$$

Table 2. Partial test

Variables	Coefficient	Std. error	t-stat	Prob
C	0.1280	0.1361	0.9402	0.3516
CR	-0.0223	0.0195	-1.1443	0.2579
DER	-0.1266	0.1036	-1.2216	0.2276
ROA	-1.3254	0.9988	-1.3270	0.1905
DPR	0.2660	0.1169	2.2740	0.0273

Based on Table 2, the impact of the current ratio, debt-to-equity ratio, return on assets, and dividend policy on stock returns can be described as follows:

1. The current ratio (CR) variable has a regression coefficient of -0.0223 and a t-statistic of -1.1443 with a probability value of 0.2579. The significance value $> \alpha$ (0.05) indicates that CR has no significant effect on stock returns. Therefore, the first hypothesis is rejected.
2. The debt-to-equity ratio (DER) variable has a regression coefficient of -0.1266 and a t-statistic of -1.2216 with a probability value of 0.2276. The significance value $> \alpha$ (0.05) indicates that DER has no significant effect on stock returns. Therefore, the second hypothesis is rejected.

3. The return on assets (ROA) variable has a regression coefficient of -1.3254 and a t-statistic of -1.3270 with a probability value of 0.1905. The significance value $> \alpha$ (0.05) indicates that ROA has no significant effect on stock returns. Therefore, the third hypothesis is rejected.
4. The dividend policy variable proxied by the dividend payout ratio (DPR) has a regression coefficient of 0.2660 and a t-statistic of 2.2740 with a probability value of 0.0273. The significance value $< \alpha$ (0.05) indicates that the variable representing dividend policy, proxied by DPR, significantly affects stock returns. Therefore, the fourth hypothesis is accepted.

Table 3. Coefficients of determination

R^2	Adjusted R^2	F-statistic	Prof(F-statistic)
0.1369	0.0679	1.9835	0.1113

The results of testing the coefficient of determination obtained an adjusted R-squared value of 0.0679% or 6.79%, which means the four independent variables can explain the ability of the dependent variable. The remaining 93.21% is explained by other variables outside the research variables (Table 3).

4.3. Discussion

The testing results show that CR has a regression coefficient of -0.0223 and a t-statistic of -1.1443 with a probability value of 0.2579 (Table 2). The significance value $> \alpha$ (0.05) indicates that CR has no significant effect on stock returns. The results indicate that companies with high CR do not affect the movement of stock returns. The findings suggest that a high CR does not guarantee investors will invest because a high value indicates that the company's ability to optimize current assets is unfavorable, leading to many underutilized assets and declining investor interest. Therefore, CR is irrelevant to determining the rate of stock returns. Our findings are consistent with Nurastuti (2022) and Sidharta et al. (2022).

The results show DER a regression coefficient of -0.1266 and a t-statistic of -1.2216 with a probability value of 0.2276 (Table 2). The significance value $> \alpha$ (0.05) indicates that DER has no significant effect on stock returns. The size of DER does not impact the value of stock returns. A high DER indicates that a company is financing its development through borrowing. At the same time, a low value suggests that a company may not optimize the profit potential from larger borrowing. However, the debt size is not a benchmark for investors. Therefore, DER is irrelevant in determining the value of stock returns. Our findings are consistent with Nurhikmawati & Widiyanti (2020) and Sinaga et al. (2020).

The results show that ROA has a regression coefficient of -1.3254 and a t-statistic of -1.3270 with a probability value of 0.1905 (Table 2). The significance value $> \alpha$ (0.05) indicates that ROA has no significant effect on stock returns. The ROA does not affect the stock return value. The findings suggest that ROA is only used to assess the effectiveness of a company's management in utilizing its assets to generate profits. In contrast, investors tend to look at other more beneficial indicators. Therefore, ROA is less of a consideration for investors and has no impact on determining the company's stock return rate. Our findings are consistent with Sausan et al. (2020) and Izuddin (2020).

The results show that the dividend policy variable proxied by DPR has a regression coefficient of 0.2660 and a t-statistic of 2.2740 with a probability value of 0.0273 (Table 2). The significance value $< \alpha$ (0.05) indicates that the dividend policy variable proxied by DPR significantly affects stock returns. The policy set by the management determines how much of the profit obtained within a period will be distributed to shareholders in the form of dividends and how much to invest for future interests. The more consistent a company is in paying dividends to its shareholders, the more favorable investors' perceptions of the company,

increasing investors' interest in its stock. If the demand for stock increases, the share price tends to rise so that the return on investment in the company's stock will provide a profit. Our findings are consistent with Kholifah & Retnani (2021) and Lestari & Sriyono (2021).

5. Conclusion

Data testing and analysis lead to the following conclusions: CR has no significant effect on stock returns, DER has no significant effect on stock returns, ROA has no significant effect on stock returns, and DPR has a significant effect on stock returns.

These conclusions lead to the following recommendations. Investors who plan to invest in stocks and seek consistent dividend payouts that yield positive returns are advised to carefully consider and analyze the dividend policy (DPR) because it significantly affects stock returns. Hopefully, companies will optimize and pay attention to their DPR because companies that are consistent in distributing dividends can influence and determine the level of stock returns.

Future work on this subject should consider and study additional variables because the coefficient of determination in this study is only 6.79%. Hence, other variables not examined in this study explain the stock return variable of 93.21%.

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