INTERVENING VARIABLE LEVERAGE IN THE DETERMINANT STOCK RETURN

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Abstract

This research is intended to analyze and answer the inconsistencies in previous research results as well as the phenomenon of stock returns that are not as described in the Efficient Capital Markets theory. This is what prompted the research to do it again with a different time series and cross-sectional. This type of research is quantitative descriptive with a panel data multiple regression analysis method using 27 sample companies included in the LQ-45 index for five years. This research formula is to maximize the Stock Return value through leverage as an intervening variable using research objects of companies on the Indonesia Stock Exchange. Two research models are integrated into one and each goes through model selection test stages, Chow Test, Hausman Test, and Lagrange Multiplier Test. Results in the first model; An increase in ROA can explain the impact on increasing Leverage (DER), these results confirm that this is not the case with the prevailing theory. Other similar results also occur with the Current Ratio (CR) which can explain its effect on Leverage (DER) with a positive correlation and this is not as per existing theory. The results in the second research model are not much different from the first model, namely ROA and CR can each explain their influence on Stock Returns, but these results support the existing theory. The use of Leverage as an intervening variable does not function to mediate Stock Return so that this variable cannot be used as a reference for predicting Stock Return. It is hoped that these results can help as a guide for investors on the Indonesia Stock Exchange to get maximum Stock Returns.

Keyword*: Return On Assets, Earnings Per-Share, Current Ratio, Debt to Equity Ratio, Stock Return.*

1. INTRODUCTION

The Efficient Market Hypothesis theory states that the stock prices formed are a reflection of all existing information, both fundamental and insider information. In Statman (1998) states that investors cannot beat market returns systematically and stock prices are rational. What is meant by rational is that stock prices reflect fundamentals such as risk value and do not reflect psychological aspects such as investor sentiment. In Fama (1970), the concept of an efficient market means that current stock prices reflect all available information. This means that information comes from past and present information and is supplemented by information from the company itself (insider information).

Research on the influence of profitability on stock returns finds different results and directions. The research results of Rahayu (2021) found that profitability had no effect on stock returns, while the research results of Anisa (2015), Legiman et al. (2015) and Subalno (2010) found that profitability has an effect on stock returns, then in Sudarsono & Sudiyatno (2016) found that profitability has a negative effect on stock returns, this negative effect means that the greater the profitability, the smaller the stock return and vice versa. the smaller the profitability, the greater the stock return, while Haanurat (2013), Putri & Sampurno (2012), Wulandari et al. (2017), Utami & Murwaningsari (2017) and Martono (2016) found that profitability has a positive effect on stock returns, the greater the profitability, the greater the stock return and vice versa, the smaller the profitability, the smaller the stock return.

This research is intended to carry out analysis and obtain confirmation of answers to the variables used in this research as endogenous variables, namely Return On Assets (ROA), Earnings per Share (EPS), Liquidity Carrent Ratio and the intervening variable Leverage Debt to Equity Ratio (DER) influences the Stock Return (SR) variable.

Market-based financial measures are financial ratios used to predict stock returns, where this ratio focuses on market information as the basis for analysis, in other words, this ratio is also called the market ratio. Ratios of market-based financial measures that are capable/feasible to explain stock returns include the price to earnings ratio (PER) in Muhammad & Scrimgeour (2014). According to Masa'deh, Tayeh, Al-Jarrah, & Tarhini (2015) PER is the result of a comparison between price per share and income per share. A small PER value indicates that the share price is cheap for investors to buy, but this indicates that the performance per share of the company is getting better in generating profits. In this way, it will attract investors' interest in buying the shares in question. This is stated in Zeytino, Akarim, & Çelik (2012) who in their research explains that market-based ratios are widely used by investors to determine market value. an issuer. Apart from that, investors can also predict the real value of a share by using market-based ratios, one of which is PER.

If the real value of a share is greater than its market value, then investors are interested in buying this type of share. Therefore, market-based ratios are a very important indicator in making investment decisions. Research conducted by Margaretha & Damayanti (2008) found that PER has a positive effect on stock returns. However, this is different from the research results presented by Carlo (2014) which stated that PER has no effect on stock returns. Thus, there are differences in research results regarding the relationship between PER and stock returns.

For capital market players, whether for the long term or short term, Stock Return is an important factor in determining their choice to buy shares in the capital market. The return obtained can be in the form of capital gain/loss or yield, the higher the return obtained from a company's shares, the more attractive the investment in that share.

In Utami & Murwaningsari (2017) that the dividend payout ratio has a significant effect with a positive correlation to stock returns but on the contrary by Devaki (2017), Puspitasari & Purnamasari (2013), Sayidah & Handayani (2017) that the dividend payout ratio has an insignificant effect on stock returns. Apart from dividend policy, profitability is also positive information for capital market players so it can influence stock returns.

The results of research conducted by Subalno (2010), Anisa (2015), Legiman et al. (2015), Putri & Sampurno (2012), Haanurat (2013), Wulandari et al. (2017) with the result that Return on Assets has a positive correlation with stock returns. Different results in Sudarsono & Sudiyatno (2016) with the result that Return on Assets has a significant effect with a negative correlation to stock returns.

Apart from the dividend pay-out ratio and profitability factors, there are other factors that can have an impact on stock returns, namely company leverage. In the results of research by Putri & Sampurno (2012), Anisa (2015) with the results that the Debt to Equity Ratio has a significant effect with a negative correlation to stock returns, while in Sudarsono & Sudiyatno (2016) the results show that the Debt to Equity Ratio has an effect significantly with a positive correlation to stock returns. Very different results in Subalno (2010), Haanurat (2013), Legiman et al. (2015), Wulandari et al. (2017), that Debt to Equity Ratio leverage has an insignificant effect

on stock returns. The results of this research are as explained in the previous paragraph.

LITERATURE REVIEW AND HYPOTHESIS

Alternative sources of funds for determining policy are considered very important, because from various sources of funds there are capital costs that are not the same from one another. Therefore, company management considers it necessary to consider optimal balance in determining its capital structure, in the sense that there are various sources of funds so it is necessary to determine the source of funds from shares, debt, or a combination of both, Adi (2017). The results of research in Mulyani (2014) show that Return On Assets (ROA) has a significant effect with a positive correlation to capital structure (DER). However, different correlation results are found in Purwohandoko (2017) that Return on Assets (ROA) has a significant effect with a negative correlation to Capital Structure (DER).

H_1: There is an influence of Return On Assets (ROA) on Leverage.

The research results in Reni (2014), Chen & Chou (2015) show that EPS has a significant effect with a positive correlation. The large fluctuations in the value of a company's earnings per share (EPS) can affect its capital structure.

H_2: There is an influence of Earnings Per Share (EPS) on Leverage.

In Nastiti (2016) liquidity has a significant effect with a positive correlation to Capital Structure (DER). Different correlation results in Bhattarai (2016), Verena and Haryanto (2013), Sheikh and Zongjun (2011), Nugrahani and Sampurno (2010), that liquidity has a significant effect with a negative correlation to capital structure. so that companies that have high liquidity can strengthen their capital internally, not from debt.

H_3: There is an influence of Current Ratio (CR) on Leverage.

In Anwaar (2016), Salamat and Mustafa (2016), Wijaya (2014), ROA has a significant effect with a positive correlation with stock returns. On the other hand, in Sudarsono and Sudiyatno (2016), Mahmudah and Suwitho (2016), ROA has an insignificant effect on Stock Return.

H_4: There is an influence of Return On Assets (ROA) on Stock Return.

In Utami et al. (2015), Liquidity has a significant effect with a negative correlation on Stock Return. However, in Anwaar (2016), Bararoh (2015), liquidity has an insignificant effect on Stock Return.

H_5: There is an influence of the Current Ratio (CR) on Stock Return

The research results of Anisa (2015), Sudarsono & Sudiyatno (2016) show that leverage has a significant effect with a positive correlation on Stock Return, while in Putri & Sampurno (2012) it shows that leverage has a significant effect with a negative correlation on Stock Return. On the other hand, in the research results of Haanurat (2013), Legiman et. al. (2015), Subalno (2010), Wulandari et al. (2017), Hatfield et al. (1994) that leverage has an insignificant effect on Stock Return.

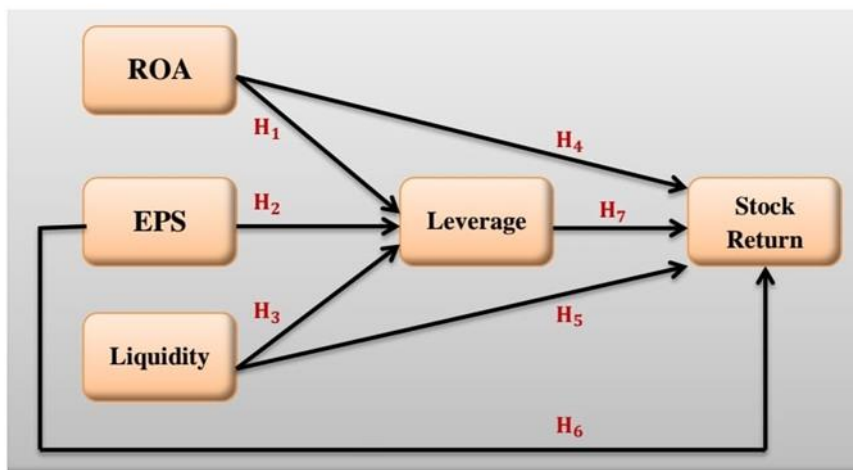H_6: There is an influence of Debt to Equity Ratio (DER) on Stock Return

Figure 1
Research Drawing Framework Model

2. RESEARCH METHODS

This research uses a qualitative and quantitative descriptive approach where the analysis method is multiple panel data regression using a combination of five year time series data or the 2015 - 2019 period and cross section.

The objects used in this research are companies listed on the Indonesia Stock Exchange and the population is companies selected for the LQ-45 index. For the population above, the researcher used purposive sampling and produced 27 companies as the research sample.

Operational Variables:

Table 1
Operational Variables

No	Variables	Notation	Formula
1	Return On Assets	ROA it	$\dfrac{\text{Earnings After Tax}}{\text{Total Assets}}$
2	Earnings Per-Share	EPS $_{it}$	$\dfrac{\text{Net Income}_{it} - \text{Preferred Dividends}_{it}}{\text{Weighted Average Shares Outstanding}_{it}}$
3	Current Ratio	CR it	$\dfrac{\text{Current Assets}_{it}}{\text{Current Liabilities}_{it}}$
4	Leverage	LEV it	$\dfrac{\text{Debt}_{it}}{\text{Equity}_{it}}$
5	Stock Return	SR it	$\dfrac{\text{Closing Price}_{it} - \text{Closing Price}_{i(t-1)}}{\text{Closing Price}_{i(t-1)}}$

Panel Data Multiple Regression Estimation

The approach that can be taken in estimating panel data multiple regression which is a combination of time series data and cross section data is to use analysis:

1. Common Effect Model (CEM)
2. Fixed Effect Model (FEM)
3. Random Effect Model (REM)

Model Selection Test

By using the three basic analyzes above, you can then carry out three model suitability testing procedures to be used in selecting the best panel data multiple regression model as follows:

Chow Test

This test uses F-statistics to determine the choice between the Common Effect model or the Fixed Effect model. Rejection or acceptance of the hypothesis is based on the level $\alpha = 5\%$ in the null hypothesis H_0 and alternative hypothesis H_a. Between these two models technically compares the calculation of F-statistics with F-table. If from the results of F count > from F table rejection can be made of the null hypothesis H_0 and conversely acceptance can be made of the alternative hypothesis H_a so the appropriate model to use is the Fixed Effect Model, if the results are different then vice versa.

Test Criteria:

F count < F table H_0 is rejected

F count > F table H_0 is accepted

Hausman Test

Hausman testing will determine the choice between the Fixed Effect Model or Random Effect Model. This Hausman test uses the Chi-Square statistical distribution with k degrees of freedom as the number of exogenous variables.

Hypothesis testing against the Hausman test which accepts the null hypothesis H_0 and rejects the alternative hypothesis H_a will be fit using the Random Effect Model, but on the contrary will use the Fixed Effect Model if the statistical hypothesis rejects the null hypothesis H_0 and accepts the alternative hypothesis H_a.

Lagrange Multiplier (LM) Test

Testing the Lagrange Multiplier (LM) is intended to determine the fit model between the Common Effect Model or Random Effect Model. The basis used in this LM test is the Chi-Squares distribution with a degree of freedom equal to the number of exogenous variables.

If the LM statistical value is greater than the critical value of the Chi-Squares statistic, it will reject the null hypothesis H_0 and accept the alternative hypothesis H_a, this result means that the fit estimate is using the Random Effect Model. On the other hand, if the LM statistic value is smaller than the critical value of the Chi-Squares statistic, it will accept the null hypothesis H_0 and reject the alternative hypothesis H_a, this means that the use of the Common Effect Model is more appropriate.

Carrying out the conformity test as explained above can be simplified by looking at Figure 2 below.
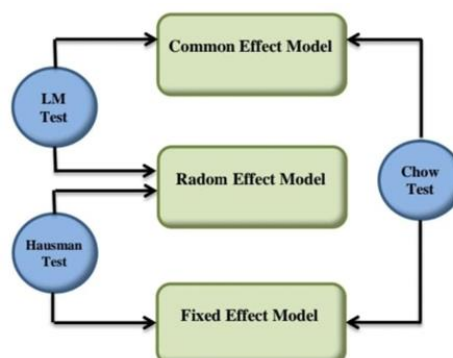

Figure 2
Model Fit Test

Panel Data Regression Model

Structural Equation Research Model I,

$LEV_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 EPS_{it} + \beta_3 CR_{it} + \varepsilon_{it}$; ....(1)

$\quad i = 1,2,........, N ; \quad t = 1,2,......T$

Structural Equation Research Model II,

$SR_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 EPS_{it} + \beta_3 CR_{it} + LEV_{it} + \varepsilon_{it}$; ......(2)

$\quad i = 1,2,........, N ; \quad t = 1,2,......T$

Where:

LEV	=	Leverage	β	=	Slope
ROA	=	Return On Assets	α	=	Intercept
EPS	=	Earnings Per-Share	N	=	Number of Observations
CR	=	Current Ratio	T	=	Lots of time
SR	=	Stock Return	N x T	=	Number of Panel Data
ε	=	Error component			

3. RESULTS AND DISCUSSION

A. Descriptive Statistics

Table 2
Descriptive Statistics

	RS	ROA	EPS	CR	DER
Mean	7.043973	0.223691	0.323773	15.86461	0.360408
Median	7.008024	0.190200	0.249525	7.724650	0.137858
Maximum	11.03570	0.934900	1.497100	32.83650	2.753300
Minimum	3.158445	0.062500	0.008100	4.870141	0.003634
Std. Dev.	1.812861	0.144848	0.258545	11.20828	0.513796
Observations	135	135	135	135	135

Source: Data processed

Table 3
Multicollinearity

	ROA	EPS	CR	DER
ROA	1.000000	0.327272	-0.413550	-0.359077
EPS	0.327272	1.000000	0.225056	0.035385
CR	-0.413550	0.225056	1.000000	0.691317
DER	-0.359077	0.035385	0.691317	1.000000

Source: Data processed

Research Results Model 1 and 2

B. Leverage and Stock Return as Endogenous Variables in Testing the Suitability of Research Models

Structural Equation 1 and 2 Research Model

Table 4

Chow Test

Research Model 1 Chow Test: Common Effect Vs Fixed Effect Endogenous Variable: Leverage				Research Model 2 Chow Test: Common Effect Vs Fixed Effect Endogenous Variable: Stock Return			
Effects Test	Statistic	d.f.	Prob.	Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.450871	(26,105)	0.0000	Cross-section F	8.238919	(26,104)	0.0000
Cross-section Chi-square	152.41649	26	0.0000	Cross-section Chi-square	150.974095	26	0.0000

Source: Data processed

The results of testing the Chow-test in Research Model I and Research Model 2 show that the F test statistics with the chi-square test produce statistical hypotheses: rejecting the null hypothesis H_0 and accepting the alternative hypothesis H_a at the level of $\alpha = 5\%$. This can be interpreted as saying that **the Fixed Effect Model** will be better used than the Common Effect Model (Table-4).

Table 5

Hausman Test

Research Model 1 Hausman Test: Fixed Effect Vs Random Effect Endogenous Variable: Leverage				Research Model 2 Hausman Test: Fixed Effect Vs Random Effect Endogenous Variable: Stock Return			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	31.531524	3	0.0000	Cross-section random	31.016825	4	0.0000

Source: Data processed

The same results in testing the Hausman-test in Research Model I and Research Model 2 are the F test statistics with chi-square test with statistical hypothesis results: rejecting the null hypothesis H_0 and accepting the alternative hypothesis H_a at the level of $\alpha = 5\%$. This means that the same test results can also be said that the use of **the Fixed Effect Model** in the results of this test is better than the Random Effect Model (Table-5).

Table 6

Endogenous Variable: Leverage

Total pool (balanced) observations: 135

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.265242	0.691304	1.830225	0.0701
ROA	3.783936	0.968103	3.908607	0.0002
EPS	-0.384041	0.461985	-0.831284	0.4077
CR	0.318737	0.042192	7.554510	0.0000
Adjusted R-squared	0.704095			
F-statistic	11.99476			
Prob(F-statistic)	0.000000			

Source: Data processed

Table 7
Fixed Effects (Cross)
Endogenous Variable: Leverage
Total pool (balanced) observations: 135

Trading Code	Coefficient	Trading Code	Coefficient
_ADRO--C	-3.741385	_KLBF--C	3.926872
_AKRA--C	-3.315721	_LPPF--C	3.040153
_ASII--C	-4.846182	_MNCN--C	3.439297
_BBCA--C	-2.271573	_PGAS--C	3.372340
_BBNI--C	-2.455682	_PTBA--C	1.325814
_BBRI--C	-2.379935	_PTPP--C	2.162470
_BBTN--C	-2.274875	_SCMA--C	2.693178
_BMRI--C	-4.089049	_SMGR--C	2.683943
_BSDE--C	-3.536727	_TLKM--C	1.268560
_GGRM--C	-2.705949	_UNTR--C	0.879777
_ICBP--C	-1.284173	_UNVR--C	-0.915768
_INDF--C	2.552750	_WIKA--C	2.208834
_INTP--C	2.087394	_WSKT--C	1.465215
_JSMR--C	0.710422		

Source: Data processed

Table 8
Endogenous Variable: Stock Return
Total pool (balanced) observations: 135

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.280880	0.696344	1.839436	0.0687
ROA	3.777945	0.972550	3.884576	0.0002
EPS	-0.404179	0.468988	-0.861810	0.3908
CR	0.319977	0.042584	7.514092	0.0000
DER	-0.076156	0.257819	-0.295384	0.7683

Adjusted R-squared	0.701500
F-statistic	11.49705
Prob(F-statistic)	0.000000

Source: Data processed

Table 9
Fixed Effects (Cross)
Endogenous Variable: Stock Return
Total pool (balanced) observations: 135

Trading Code	Coefficient	Trading Code	Coefficient
_ADRO--C	-3.717923	_KLBF--C	3.912104
_AKRA--C	-3.296580	_LPPF--C	3.036185
_ASII--C	-4.823149	_MNCN--C	3.426742
_BBCA--C	-2.287512	_PGAS--C	3.359418
_BBNI--C	-2.405161	_PTBA--C	1.320008
_BBRI--C	-2.352164	_PTPP--C	2.148958
_BBTN--C	-2.279090	_SCMA--C	2.684858
_BMRI--C	-4.058569	_SMGR--C	2.669980

_BSDE--C	-3.513992	_TLKM--C	1.253271
_GGRM--C	-2.704369	_UNTR--C	0.863945
_ICBP--C	-1.277712	_UNVR--C	-0.928353
_INDF--C	2.542535	_WIKA--C	2.191245
_INTP--C	2.078031	_WSKT--C	1.453890
_JSMR--C	0.703405		

Source: Data processed

1. Return on Assets (ROA) has a significant effect on Leverage with a positive correlation as seen in table 6
2. Variable Earnings per-Share (EPS) has an insignificant effect on Leverage as shown in table 6
3. The Liquidity Current Ratio (CR) variable has a significant effect on Leverage with a positive correlation as in table 6.
4. In this first research model, the dominant level among the three variables is Return on Assets (ROA) as shown in table 6.
5. This research also produces that among the cross sectional used, the level of dominance is in Astra International Tbk with the trade code ASII as shown in table 7.
6. The first research model is fit for use with a significant F test at the F-statistic level of 11.99476 (table 6).
7. The use of three exogenous variables in this first research model can explain the Adjusted R-squared of 70.41% (table 6).
8. Return on Assets (ROA) has a significant effect on Stock Return with a positive correlation as seen in table 8.
9. Earnings per Share has an insignificant effect on Stock Return as shown in table 8.
10. Liquidity Current Ratio (CR) has a significant effect on Stock Return with a positive correlation as in table 8.
11. In this second research model, the dominant level among the four variables is Return on Assets (ROA) as shown in table 8.
12. The second research model is fit to be used with a significant F test at the F-statistic level of 11.49705 (table 8).
13. The use of four exogenous variables in this second research model can explain the Adjusted R-squared of 70.15% (table 8).
14. The intervening variable Leverage used cannot explain its effect on Stock Return (table 8).

Discussion

The exogenous variable Return on Assets (ROA) used in this research can explain its influence on the endogenous variable Leverage and the endogenous variable Stock Return with a positive correlation. These results support what was produced in the research of Mulyani (2014), Anwaar (2016), Salamat and Mustafa (2016), Wijaya (2014), but differ from the results in Sudarsono and Sudiyatno (2016), Mahmudah and Suwitho (2016) .

This can be explained by the fact that an increase in profitability does not automatically reduce the size of debt obligations, but the market responds well with an increase in Stock Return. The results of this research are that an increase in profitability will increase debt and the analysis that can be carried out is that the increase in profitability could be used to pay dividends, strengthening the position of working capital. If this happens, retained earnings will decrease, while asset growth will increase through additional investment, so what happens from the results of this research is an increase in profitability, not a priority for reducing debt obligations.

Considering that Leverage cannot explain its effect on Stock Return, the results of this research can be said that this variable cannot mediate Stock Return. This means that market reactions to get returns do not require analysis of leverage but rather profitability (ROA) and liquidity (Current Ratio). The results of this research contradict the research results in Anisa (2015), Sudarsono & Sudiyatno (2016), Putri & Sampurno (2012), but support the research results of Haanurat (2013), Legiman et. al. (2015), Subalno (2010), Wulandari et al. (2017), Hatfield et al. (1994).

Earnings per-Share (EPS) in this study cannot explain its influence on Stock Returns directly or indirectly through Leverage as an intervening variable. These results can be said to mean that profitability paid as cash dividends is not very dominant due to the fact that it is not responded to by the market, so that the increase in profitability is more intended for business expansion or investment. This fact illustrates that the type of investor on the Indonesia Stock Exchange is more short term. The results of this study contradict the results in Gejali and Satrio (2013), Khan et al. (2013), Salamat and Mustafa (2016), Anwaar (2016), Aisah and Mandala (2016), but supports the research results in Wijaya (2014) and Karim (2015).

The exogenous variable Liquidity Current Ratio (CR) can explain its influence on Stock Returns directly and indirectly through leverage where the two are positively correlated. It can be explained that this is still related to the explanation of profitability in the paragraph above. The results of this research show that the higher the availability of liquidity from profitability results, it will actually increase liabilities and not reduce liabilities. These results can be interpreted that the availability of liquidity is more for other financial settlements than for paying debt obligations. These results support the research results in Nastiti (2016) and differ from those in Bhattarai (2016), Verena and Haryanto (2013), Sheikh and Zongjun (2011), Nugrahani and Sampurno (2010).

The exogenous variables in the results of this research are only able to explain the endogenous variables in each research model amounting to 70.41% (model 1) and 70.15% (model 2), so that the addition of exogenous variables can still be carried out by future researchers.

4. CONCLUSION

Findings: The results of this research conclude that Return on Assets (ROA) has a significant effect on Stock Return without mediation from Leverage. The same result also occurs when the liquidity variable Current Ratio has a significant effect on Stock Return without using mediation from Leverage. Among the Exogenous variables, the dominant or most sensitive of the two research models is Return On Assets (ROA) and the dominant or most sensitive Cross section is Astra International Tbk with trading code (ASII).

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