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## THE EFFECT OF PROFITABILITY, CAPITAL STRUCTURE AND CORPORATE VALUES ON RETURN OF SHARES (TELECOMMUNICATIONS SUB SECTOR IN INDONESIA STOCK EXCHANGE 2014-2018)

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**Abstract:** The development of increasingly stringent business world in Indonesia will create an increasingly sharp competition between companies. Firms in the industry in Indonesia is a land for investors to invest capital to be invested in various forms of securities. So it is not wrong for the company's various aspects and types become part of the capital market. This study was conducted to determine the effect of ROE, DER and PBV to Stock Return on Telecommunications Sector Sub Listed in Indonesia Stock Exchange. This study uses annual data for the observation period from 2014 until 2018. The research type is descriptive causality. The data used is the data panel that is a combination of annual time series data and cross section were processed using panel data regression analysis. The population is all Sub-Sector Telecommunications listed in Indonesia Stock Exchange from 2014 until 2018 the number of 5 companies. The sampling technique used purposive sampling, found a sample of four companies with the observation of 5 years in order to obtain total observation as much as 20. Data were obtained from the Indonesia Stock Exchange, and Yahoo Finance. Analysis of the data in this study is panel data regression. The model used is the Common Effect Model. The analysis showed that the ROE does not have a significant effect on stock returns, DER has no significant effect on stock returns, while PBV positive and significant effect Stock Return on Telecommunications Sector Sub Listed in Indonesia Stock Exchange.

**Keywords:** : ROE, DER, PBV and Stock Return

### INTRODUCTION

The development of increasingly stringent business world in Indonesia will create an increasingly sharp competition between companies. The companies in the industry in Indonesia is a land for investors to invest capital to be invested in various forms of securities. So it is not wrong for the company's various aspects and types become part of the capital market.

Capital market in Indonesia has a lot of sectors one of which is infrastructure, utilities and transportation are companies which development is very fast and good. The amount of funds expended in the construction of infrastructure, utility and transportation to be an indicator that a country is very dedicated in providing the best facilities for its residents. Besides having great benefits Infrastructure, Utilities and Transportation has also become a critical success factor in the Indonesian economy. Infrastructure, Utilities and Transport are growing rapidly and could push the country's revenue and support economic growth in Indonesia.

**Table 1. Data Return Equity Infrastructure Sector, Utilities and Transportation**

SUB SECTOR	STOCK RETURNS			
	2015	2016	2017	2018
Energy	-0.23690	0.05483	0.09395	0.01153
Non-Building Construction	-0.09299	0.61935	0.41614	0.07543
transportation	-0.21517	0.19664	-0.04537	0.20532
Telecommunication	-0.01567	0.12263	-0.02982	0.28004
Toll Roads, Ports, Airports and the like	-0.00412	-0.14486	0.13696	-0.07964

Sub-Sector Telecommunications trending stock returns that are best compared sub other sectors actually showing an increase very significantly in 2018 when compared to the stock return sub other sectors, this is because the Telecommunications Market in Indonesia is still great and still plenty of room to develop into bigger ,

Investment decision making course begins with an analysis of the financial ratios of the company's financial statements. Profitability, Capital Structure and Corporate Values included in the composition of financial ratios are an important consideration for investors.

Based on the above, it should be investigated stock returns Telecommunications sub-sector in Indonesia Stock Exchange (BEI) in the period 2014- 2018 by using the ROE, DER, PBV.

## LITERATURE REVIEW

Ross (1976) revealed that the Arbitrage Pricing Theory (APT) is based on the premise that states that two (2) investment opportunities have the same characteristics are not able to be sold at different prices, further this theory assumes that the level of such benefits can be affected by various factors systematic. The correlation between the rate of profit of 2 (two) securities occurs because the securities are influenced by several factors the same.

Signaling Theory or signal theory developed by (Ross, 1977), stated that the company executives have better information about the company will be compelled to pass on the information to potential investors that its stock price increase.

Profitability ratio According to Winarto (2015), Profitability ratio is the ratio to assess the ability of the enterprise for profit. This ratio also provides a measure of the effectiveness of management of a company. Return On Equity (ROE) to measure profitability, with net income formulas available to common shareholders divided by the number of equity shares. The following formula can be used to calculate the Return On Equity (ROE):

$$ROE = \frac{\text{Earning After Tax}}{\text{Total Equity}}$$

Capital Structure According to Fahmi (2014), the capital structure is the ratio of debt to equity is a ratio used to measure the proportion of debt to equity. Debt to Equity Ratio (DER) is a ratio used to measure a company's debt incurred compares to their own capital. DER measurement units are as follows:

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Company Value, According Pantow *et al* (2015), The company's value is a company's performance, as reflected by the stock price is formed by supply and demand in the capital markets that reflect the public's assessment of the performance of the company. Price to Book Value (PBV) is the ratio of the market used to measure performance against the market price of their book value, which is projected by the following formula:

$$\text{PBV} = \frac{\text{Market Price}}{\text{Book Value}}$$

Return Stocks, Gitman (2012) is the total gain or loss on an investment over a given period. This is usually measured as the change in value added distribution of cash over a period of time, expressed as a percentage of the value of the initial investment period.

$$\text{Rs} = \frac{\text{Pt} - \text{Pt-1}}{\text{Pt-1}}$$

Information:

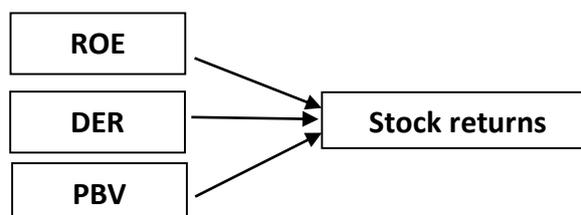
Rs : Stock returns

Pt : The stock price of the current period

Pt-1 : The share price the previous period

This research has been carried out by some previous investigators related to profitability, capital structure, corporate value and stock returns, such as: Nuryaman (2015), Winarto (2015), Tamuunu and Farlane (2015), Pantow *et al* (2015), Tofu Susilo (2017), Mahdaleta *et al* (2016), Tran Nha Ghi (2015), Rashid (2015), Hasbi (2015), Abdullah *et.al* (2015), Adnan Gharaibeh (2014), Dita and Isrochmani (2014), Senyigit and Ag (2014), Emamgholipou r *et. al* (2013), Herath (2017), Martini *et al* (2014)

Based on the literature reviews that Mentioned avobe, the theoretical framework of the research is as follows:



**Figure 1. Theoretical Framework**

## RESEARCH METHODS

This type of research is associative research, the research aims to examine the influence or relationship between two or more variables (Sugiyono, 2014). In this study, researchers will analyze the effect of variable profitability, capital structure, and Value to Return Sub-Sector Shares Telecommunications Company Listed in Indonesia Stock Exchange (IDX), which amounts to five companies from 2014 until 2018. The samples were collected from four companies Telecommunications, Panel data regression analysis is used to determine the effect of the independent variable on the dependent variable.

Panel data regression equation is as follows:

$$Y_{it} = \alpha + \beta X_{it} + \epsilon_{it}$$

Where:

$Y_{it}$  = Variable response at the  $i$ -th observation units and time to  $t$

$X_{it}$  = The predictor variables in the  $i$ -th observation units and time to  $t$

$\alpha$  = Intercept regression model

$\beta$  = Slope coefficient or coefficients directions

$\epsilon_{it}$  = Component error on the  $i$ -th observation units and time to  $t$

Then, a test on the goodness of fit model (F-test) is conducted. This test is used to Determine Whether all of the independent variables Affect the dependent variables or not (the goodness of fit models). If the models is significant, then we will see the result of the coefficient of determination. The coefficient of determination used to measure how far the model's ability to explain variations in the dependent variable.  $R^2$  small value means the ability of independent variables in explaining the variation of the dependent variable are very limited. A value close to the mean of independent variables provide almost all the information needed to predict the variation of the dependent variable (Ghozali, 2006). Furthermore t test, t test showed how far the influence of the independent variable (independent) individually in explaining the variation of the dependent variable. (Ghozali, 2006).

## FINDINGS AND DISCUSSION

Dependent Variable: Y

Method: Panel Least Squares

Date: 11/19/19 Time: 10:59

Sample: 2014 2018

Periods included: 5

Cross-sections included: 4

Total panel (balanced) observations: 20

variable	coefficient	Std. Error	t-Statistic	Prob.
C	-1.461331	1.082110	-1.350446	0.1957
X1	5.823832	3.386512	1.719714	0.1048
X2	0.044281	0.061870	0.715716	0.4845
X3	3.332911	0.773949	4.306372	0.0005

R-squared	0.618158	Mean dependent var	1.008440
Adjusted R-squared	0.546562	SD dependent var	4.500645
SE of regression	3.030635	Akaike information criterion	5.232278
Sum squared resid	146.9560	Schwarz criterion	5.431424
Log likelihood	-48.32278	Hannan-Quinn criter.	5.271153
F-statistic	8.634036	Durbin-Watson stat	2.609219
Prob (F-statistic)	0.001226		

Common-Constant method selected when there are differences between the data-dimensional matrix in cross section. This model means that estimates the value of the constant  $\alpha$  for all the dimensions of the cross section. Based on the results of the regression using methods common-Constant in Table 4.6 it can be concluded that the ROE, DER results are not significant with the acquisition probability  $> 0:05$   $\alpha$ . while PBV yield significant results with the acquisition probability  $< \alpha 0:05$ . for results R-square (R<sup>2</sup>) of the method of 0.618158, explain the strong relationship between the independent variable and dependent variable.

**Table 4. Results of Panel Data Regression Analysis with Random Effect Model**

Dependent Variable: Y  
 Method: Panel EGLS (Cross-section random effects)  
 Date: 11/19/19 Time: 11:00  
 Sample: 2014 2018  
 Periods included: 5  
 Cross-sections included: 4  
 Total panel (balanced) observations: 20  
 Swamy and Arora estimator of component variances

variable	coefficient	Std. Error	t-Statistic	Prob.
C	-1.461331	1.068302	-1.367901	0.1902
X1	5.823832	3.343299	1.741942	0.1007
X2	0.044281	0.061081	0.724967	0.4789
X3	3.332911	0.764073	4.362033	0.0005

Effects Specification

	SD	Rho
Cross-section random	0.000000	0.0000
idiosyncratic random	2.991963	1.0000

weighted Statistics

R-squared	0.618158	Mean dependent var	1.008440
Adjusted R-squared	0.546562	SD dependent var	4.500645
SE of regression	3.030635	Sum squared resid	146.9560
F-statistic	8.634036	Durbin-Watson stat	2.609219
Prob (F-statistic)	0.001226		

unweighted Statistics

R-squared	0.618158	Mean dependent var	1.008440
Sum squared resid	146.9560	Durbin-Watson stat	2.609219

Based on the results of the regression using Random Effect method can be concluded that all ROE and DER results were not significant with the acquisition probability  $> \alpha 0:05$  whereas PBV variable yielded significant results with the acquisition probability  $< \alpha 0:05$ , For the results of the R-square (R<sup>2</sup>) of this method gives a value of 0.618158 that explain the strong relationship between the independent variable and dependent variable.

**Table 5. Chow Test**

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	statistics	df	Prob.
Cross-section F	1.138761	(3.13)	0.3699
Cross-section Chi-square	4.666486	3	0.1979

Results redundant fixed effect or likelihood ratio for this model has a greater probability value of Alpha (0.05), so that H<sub>0</sub> rejected H<sub>1</sub> accepted, the appropriate model from these results that the Common Effect Model (Because the probability value of 0.3699 > 0.05).

After doing the selection equation model with Chow Test the results obtained equation model is most appropriate for this research is a common effect equation model. Linear regression equation model panel data in this study were obtained equation as follows:

$$Y = 0.489972 - 6.668490X_1 - 0.513448X_2 + 0.170031X_3$$

**Table 6. F Test**

<i>F-Statistic</i>	8634036
<i>Prob (F-Statistics)</i>	0.001226

Based on Table 6 it can be seen that the F-Statistic = 8634036 < 3:10 (F<sub>table</sub>) and has a probability value of F-Statistic 0.001226 < 0:05. So that the models used are not eligible to explain the influence of the independent variable on the dependent variable.

**Table 7. The coefficient of determination (R<sup>2</sup>)**

<i>R-Squared</i>	0.618158
<i>Adjusted R-Squared</i>	0.546562

Based on the results of such calculations in Table 7 above it can be seen that the influence of the independent variable on the dependent variable stock price visible Telecommunication subsector of Adjusted R-Squared value that is equal to 0.546562 or 54.6562%. It indicates 54.6562% of shares Return which may be explained by the variation of all independent variables of ROE, DER and PBV. While the rest of 100% - 54.6562% = 45.3438% explained by other independent variables were not examined.

Table 8. t Test

variable	coefficient	Std. Error	t-Statistic	Prob.
C	-1,461,331	1.08211 million	-1,350,446	0.1957
ROE	5823832	3386512	1719714	0.1048
DER	0.044281	0.061870	0.715716	0.4845
PBV	3332911	0.773949	4306372	0.0005

From the results of the model estimation, hypothesis testing is done in accordance with the purpose of the study was conducted. The t-test was conducted to determine the effect of ROE, DER, PBV and terhadap Stock returns The Company's Telecommunications Sector Sub partially (their own). The t-test is done by comparing the value of t arithmetic with t table. If  $t > t$  table, then it is said to be a significant influence, and if  $t < t$  table, then say the effect is not significant. Results of testing the hypothesis outlined below:

### Hypothesis 1

**Ho : ROE no positive effect on Stock Return**

**Ha : ROE positive influence on Stock Return**

Based on t test at  $\alpha = 5\%$  in table 8, the probability values ROE amounted 0.1048 or greater than 0.05, it can be concluded ROE no significant effect on Stock Return. When viewed from t table at alpha of 0.05 (one tail)  $df = n-1 = 20-1 = 19$  was 1.7291, while the value of t count equal to 1,719,714 (positive), Means  $t < t$  table, then  $H_0$  is rejected and  $H_a$  accepted. Thus, it can be concluded ROE no significant effect on Return Stocks in the Telecommunications Sector Sub Listed on the Stock Exchange in 2014-2018.

### Hypothesis 2

**Ho : DER no positive effect on Stock Return,**

**Ha : DER positive influence on Stock Return,**

Based on t test at  $\alpha = 5\%$  in table 8, DER variable probability value of 0.4845 or greater than 0.05, it can be concluded DER no significant effect on Stock Return. When viewed from t table at alpha of 0.05 (one tail)  $df = n-1 = 20-1 = 19$  was 1.7291, while the value of t count equal to 0.715716. Means  $t < t$  table, then  $H_0$  is rejected and  $H_a$  accepted. Thus, it can be concluded DER no significant effect on Return Stocks in the Telecommunications Sector Sub Listed on the Stock Exchange in 2014-2018.

### Hypothesis 3

**Ho : PBV not negatively affect the Stock Return.**

**Ha : PBV negatively affect the Stock Return.**

Based on t test at  $\alpha = 5\%$  at 4:11 table, a variable probability value PBV of 0.0005 or less than 0.05, it can be concluded PBV significant effect on Stock Return. When viewed from t table at alpha of 0.05 (one tail)  $df = n-1 = 20-1 = 19$  is 1.7291, While the value of t count equal to 4,306 (positive), Means  $t > t$  table, then  $H_a$   $H_0$  accepted and rejected. Thus, we can conclude PBV positive and significant impact on Return Shares in the Sub-Sector Telecommunications Listed on the Stock Exchange in 2014-2018.

## CONCLUSION AND SUGGESTION

The test result data by using E-views 9 obtained Effect Model Common models. Based on the analysis and discussion, it can be concluded as follows:

Variable Return On Equity (ROE) had no significant effect on Return on Equity Sub-Sector Telecommunications Listed on the Stock Exchange from 2014 until 2018. This can be interpreted Investors assess the ROE as information instead responded in the negative to the stock return this can be seen from the sub-sector of Telecommunications require funds for expansion and going concern funding requirements can be obtained through retained earnings and Improvement of State Capital actually impact rebounding stock price drop ,

Variable Debt to Equity Ratio (DER) did not significantly influence stock return Sub-Sector Telecommunications Listed on the Stock Exchange from 2014 until 2018, These results indicate that the greater the value of DER signaling that venture capital structure more use of debt relative to equity causing investors' assessment of the company is getting worse, as a result investors tend to avoid stocks that have a high value in the Sub DER Telecommunications Sector Listed on the Stock Exchange from 2014 until 2018.

Variable Price to Book Value Ratio (PBV) positive and significant impact on Return Shares in the Sub-Sector Telecommunications Listed on the Stock Exchange from 2014 until 2018. PBV positive on stock returns means PVB has a high value it showed the higher the investors' assessment of the company concerned, this condition results in increasing a company's stock price, thus also expected to increase the level of return (return) of the company concerned.

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