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The Effect of Dividend Policy, Debt Policy on Stock Returns with Free Cash Flow as a Moderating Variable in Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2019-2023 Period

Hertarisa Putri Andini Nanjan[1*], Herman Ruslim[2]
[1]Tarumanagara University, Jakarta, Indonesia, hertarisa.127232026@stu.untar.ac.id
[2]Tarumanagara University, Jakarta, Indonesia, hermanr@fe.untar.ac.id

Corresponding Author: hertarisa.127232026@stu.untar.ac.id

Abstract: The present study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. The study utilizes financial reports from the IDX and related company websites. The study's independent variables are in the form of dividend policy and debt policy. The study's moderating variable is free cash flow. The study's dependent variable is stock return. The data utilized in this study is secondary in nature, derived from financial reports. The objective of this study is to ascertain the impact of dividend and debt policies on stock returns, and to determine the role of free cash flow in amplifying the influence of these two policies. Quantitative data analysis commences with descriptive statistical tests, which summarize research data, including minimum, maximum, mean, median, and standard deviation values. This provides an overview before assumption and hypothesis tests are conducted. The findings of the research indicate that financial policy and free cash flow exert a substantial influence on the stock performance of manufacturing companies in Indonesia.

Keywords: Dividend Policy, Debt Policy, Stock Returns, Free Cash Flow

INTRODUCTION

Capital markets play an important role in the modern financial system by providing a source of funding for businesses and investment opportunities for investors, where stock returns reflect the market's response to financial information and strategic decisions of the company (Brigham & Houston, 2022). Dividend and debt policies are the main factors affecting stock returns, with dividends indicating the way companies distribute profits to shareholders, while debt policies reflect external financing strategies that can strengthen the capital structure but increase financial risk (Berk & DeMarzo, 2020). In addition, *free cash flow* (FCF) plays a key role in financial decision-making, as companies with high FCF have greater flexibility in determining dividend and debt policies, which can increase investor confidence and affect stock returns if managed properly (Ross, Westerfield, & Jordan, 2021).

PT Unilever Indonesia (UNVR) recorded a net profit of Rp 2.8 trillion in the first semester of 2023, a decrease of 19.5% compared to the same period the previous year, which reached Rp 3.42 trillion 2023. UNVR's net sales during the second quarter of 2023 were recorded at Rp 20.3 trillion 2023. President Director of Unilever Indonesia, Ira Noviarti, stated that despite the annual decline in net profit, the company remains optimistic about the long-term prospects of the Indonesian FMCG market and has implemented various strategies to improve performance, including factory optimization, distribution, logistics, and promotion 2023. Inflation and the rising cost of living are impacting consumer spending habits, but the company continues to adapt by strengthening competitiveness through price interventions and investments in brand communication 2023. In addition, UNVR expanded its portfolio into premium and value segments, built stronger execution, and implemented digital strategies across all business lines to maintain market share 2023. The company also managed to increase market volume in H1-2023 compared to the previous period, with support from key categories such as *Oral Care, Skin Cleansing, Soy Sauce, Soup Stock, Dishwash*, and *Fabric Cleaning* 2023. In portfolio expansion, contribution to the premium segment increased by more than 27% of domestic sales in Q2-2023, while in the value segment, UNVR launched two new brands that performed well in market share and penetration 2023. UNVR's sales were still impacted by the closure of some *e-Commerce* players at the end of the previous year, but this impact is expected to diminish in Q2-2023. The company believes that the strategies implemented will strengthen business fundamentals, improve competitiveness, and generate long-term growth 2023.

Dividend policy reflects the company's decision to distribute profits to shareholders or retain them for operations, with some studies showing that this policy can increase stock profits (Adiputra & Hermawan, 2020; Ningsih & Maharani, 2022), while other studies mention no significant effect (Ni Luh et al., 2020). Meanwhile, debt policy plays a role in determining external funding sources for companies, with long-term debt policy being a strategy to raise funds (Fachrillah & Munandar, 2024). Previous studies show mixed results regarding the effect of debt policy on stock returns, where some find a significant positive impact (Hijrah Fathonah et al., 2023), while other studies show that debt policy has no effect on stock returns (Widi et al., 2016).

Free Cash Flow (FCF) acts as a moderating variable in testing the effect of dividend policy and debt policy, by showing the amount of money available to investors after funding assets and operations (Yunita & Subardijo, 2023). Managers can increase firm value by increasing FCF, but previous studies show mixed results; some found that FCF affects stock returns (Lita Mardiana et al., 2023), while other studies mentioned no effect (Ramadhan & Mujiyanti, 2023). Studies on FCF moderating dividend policy also have different results, with some showing mitigation of the positive effect of dividend policy on stock returns (Lestari & Wijaya, 2020), while others state there is no impact (Yuliana & Handayani, 2019). In terms of debt policy, some studies show that FCF can moderate the effect of debt policy on stock returns (Putri & Rachmawati, 2020), but other results mention no change (Sri Murni, 2019). Recent research focuses on using FCF as a moderating variable in dividend and debt policy, offering a deeper understanding of the role of a company's internal liquidity in influencing investor returns. Different from previous studies, this specifically examines the manufacturing sector which has a complex financing and operational structure, making the influence of financial policy and FCF more relevant in that context.

The 2019-2023 research period covers the time before, during, and after the COVID-19 pandemic, thus providing insights into companies' responses to external pressures as well as adjustments to financial strategies, including dividend policy, debt use, and free cash flow management. This study uses panel data regression analysis with an interaction approach to test the role of *Free Cash Flow* as a moderating variable, a method that is more complex and

accurate than ordinary regression because it considers time and inter-firm variability simultaneously. In addition, several studies identified *research gaps* in the factors affecting stock returns, suggesting the need for further studies on this aspect.

This study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period, with independent variables in the form of dividend policy and debt policy, as well as *free cash flow* as a moderating variable and stock return as the dependent variable. The data used is secondary data from financial reports. The formulation of the problem includes analyzing the effect of dividend and debt policies on stock returns, as well as the role of free cash flow in strengthening the relationship. The purpose of this study is to understand how dividend and debt policies affect stock returns, and how *free cash flow* plays a role in strengthening the influence of the two policies.

METHOD

This study uses a descriptive approach to analyze the relationship between variables without drawing conclusions, as well as quantitative methods based on the philosophy of positivism to test hypotheses through statistical analysis (Sugiyono, 2021: 8, 11). The research population consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period, with samples selected using *purposive sampling* method because not all companies meet the research criteria (Sugiyono, 2021: 80, 81). Sample criteria include companies that are listed consecutively, report financial statements, distribute dividends, use rupiah currency, and earn profits, while companies that do not meet these criteria are excluded from the study. The following are 35 companies that have met the criteria that will be sampled:

Table 1. Research Sample Companies

NO	COMPANY CODE	COMPANY NAME
1	ALDO	Alkindo Naratama Tbk
2	INTP	Indocement Tunggal Prakasa Tbk
3	SMGR	Semen Indonesia (Persero) Tbk
4	WTON	Wijaya Karya Beton Tbk
5	CPIN	Charoen Pokphand Indonesia Tbk
6	IGAR	Champion Pacific Indonesia Tbk
7	IMPC	Impack Pratama Industri Tbk
8	PBID	Panca Budi Idaman Tbk
9	EKAD	Ekadharma International Tbk
10	BUDI	Budi Starch & Sweetener Tbk
11	MDKI	Emdeki Utama Tbk
12	MOLI	Madusari Murni Indah Tbk
13	ARNA	Arwana Citramulia Tbk
14	MARK	Mark Dynamics Indonesia Tbk
15	SCCO	Supreme Cable Manufacturing Corporation Tbk
16	ASII	Astra International Tbk
17	INDS	Indospring Tbk
18	SMSM	Selamat Sempurna Tbk
19	ULTJ	Ultra Jaya Milk Industry and Trading Company Tbk
20	CEKA	Cahaya Kalbar Tbk
21	ICBP	Indofood CBP Sukses Makmur Tbk
22	DLTA	Delta Djakarta Tbk

23	GOOD	Garudafood Putra Putri Jaya Tbk
24	INDF	Indofood Sukses Makmur Tbk
25	MYOR	Mayora Indah Tbk
26	ROTI	Nippon Indosari Corpindo Tbk
27	SKLT	Sekar Laut Tbk
28	DVLA	Darya Varia Laboratoria Tbk
29	KLBF	Kalbe Farma Tbk
30	PEHA	Phapros Tbk
31	SIDO	Industri Jamu dan Farmasi Sido Tbk
32	TSPC	Tempo Scan Pacific Tbk
33	HMSP	Hanjaya Mandala Sampoerna Tbk
34	WIIM	Wismilak Inti Makmur Tbk
35	UNVR	Unilever Indonesia Tbk

This study uses independent and dependent variables, where stock returns act as the dependent variable which is calculated based on the difference between the selling and buying prices of shares after dividends (Jogiyanto Hartono, 2019). Dividend policy reflects how the company divides profits to shareholders and is an important factor in investment decisions (Sutrisno, 2021). Debt policy shows the company's financing strategy, with the debt-to-equity ratio as a common measuring tool in determining the proportion of funding through debt compared to equity (Jogiyanto Hartono, 2019). In addition, *free cash flow* is cash from operations after capital expenditures for dividends, debt payments, or investment, which plays a role in determining the company's financial flexibility (Jogiyanto Hartono, 2019). The following is a summary of the variable operationalization table used in this study, namely:

Table 2. *Free Cash Flow*

Variables	Size	Scale
Stock Return	$R\ it = \frac{P\ it - P\ it-1}{P\ it-1}$	Ratio
Dividend Policy	DPR= $\frac{Dividen\ per\ lembar\ saham}{Laba\ per\ lembar\ saham}$	Ratio
Debt Policy	*Debt To Equity Ratio*= $\frac{Total\ Hutang}{Total\ Ekuitas}$	Ratio
Free Cash Flow	$FCF = \frac{Arus\ kas\ operasi - (Modal\ Bersih + perubahan\ modal\ kerja)}{Total\ Aset}$	Ratio

This research uses EViews version 13 for data analysis, with descriptive statistical tests that simplify the presentation of data in the form of tables, graphs, or charts to provide an overview of the problem being analyzed (Muchson, 2019; Sugiyono, 2021). Panel data regression is used to improve estimation efficiency and reduce multicollinearity, with three main models: *Common Effect Model* (PLS), *Fixed Effect Model* (FEM), and Random Effect Model (REM) (Imam Ghozali, 2018). The selection of the estimation model is done through several tests, including the *Chow Test* to compare *Common Effect* and *Fixed Effect*, the *Hausman Test* to determine between *Fixed Effect* and *Random Effect*, and *the Lagrange Multiplier Test* to choose between *Pooled Least Square* and *Random Effect*, with the probability *chi-square* value as the basis for the decision. Multiple linear regression analysis

tests the effects of two or more variables. This study uses multiple linear regression following this model:

$$RS_{it} = \alpha_{\sigma} + \beta_1 DPR_{it} + \beta_2 DER_{it} + \beta_4 DPR * FCF_{it} + \beta_5 DER * FCF_{it} + e_{it}$$

Description:
RS = Stock Return
DPR = Dividend Policy
DER = Debt Policy
FCF = *Free Cash Flow*
DPR*FCF = *Free cash flow* moderates dividend policy
DER*FCF = *Free cash flow* moderates debt policy

The coefficient of determination test is used to assess the suitability of the regression model by determining the extent to which the independent variable affects the dependent variable, where the coefficient of determination ranges between 0 and 1 (Ghozali, 2018). The model feasibility test (F test) tests whether the regression model can explain the relationship between the independent and dependent variables, with a significance value <0.05 indicating a significant impact (Ghozali, 2018). The t statistical test is used to determine the effect of the independent variable on the dependent variable, where a significance result greater or less than 5% indicates an insubstantial effect (Ghozali, 2018). The data analysis assumption test includes a normality test to ensure a normal distribution of residuals, a multicollinearity test to identify the relationship between independent variables, a heteroscedasticity test to test for variance inequality, and an autocorrelation test to detect the correlation of errors between periods using the Durbin-Watson statistic (Ghozali, 2018).

RESULTS AND DISCUSSION

Description of Research Objects

This study measures stock return as the dependent variable based on the difference between the final stock price and the beginning of the period, while dividend policy is assessed by *Dividend Payout Ratio* (DPR) and debt policy by *Debt to Equity Ratio*, with *free cash flow* as a moderating variable. This study analyzes the effect of dividend policy, debt policy, and free cash flow on stock returns in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period, using financial reports from the IDX and related company websites. Quantitative data analysis begins with descriptive statistical tests to summarize research data, including minimum, maximum, average, median, and standard deviation values, to provide an overview before assumption and hypothesis testing is carried out (Ghozali, 2021).

Table 3. Descriptive Statistics Test Results

Date: 05/03/25
Time: 19:49
Sample: 2019 2023

	RS	DPR	DER	FCF	DPR_FCF	DER_FCF
Mean	0.016444	0.554880	0.635836	0.084067	0.060404	0.070221
Median	-0.009524	0.438929	0.445960	0.071607	0.024940	0.030089
Maximum	2.214286	2.529098	3.928398	0.405225	0.488156	1.481171
Minimum	-0.973966	0.015429	0.067269	-0.208216	-0.087396	-0.218684
Std. Dev.	0.364930	0.415626	0.628843	0.101853	0.099646	0.216836
Skewness	1.999138	1.494273	2.671982	0.652212	2.292023	5.392211
Kurtosis	13.40475	6.105266	12.31418	4.183583	8.331609	32.24970
Jarque-Bera	905.9537	135.4360	840.8153	22.62160	360.4966	7086.399
Probability	0.000000	0.000000	0.000000	0.000012	0.000000	0.000000

Sum	2.877776	97.10405	111.2713	14.71166	10.57067	12.28872
Sum Sq. Dev.	23.17221	30.05761	68.80727	1.805090	1.727698	8.181118
Observations	175	175	175	175	175	175

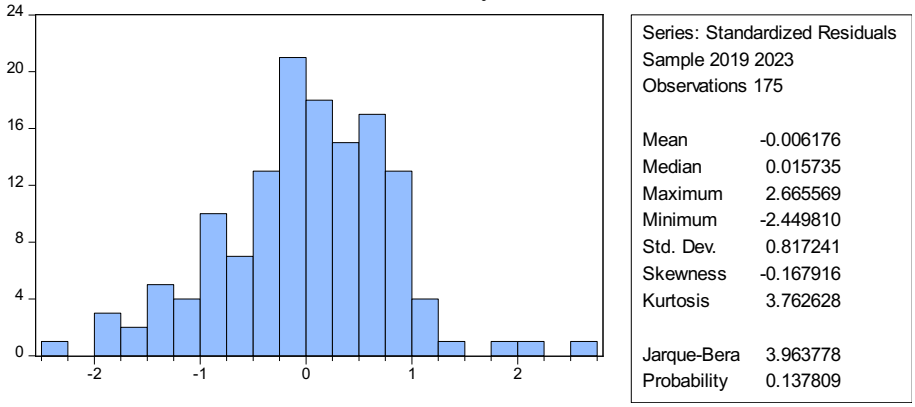
Data source: Processing results using *Eviews* 13

Based on the test results of 175 research data, the stock *return* variable has an average value of 0.016444, with a median value of -0.009524 and a standard deviation of -0.364930. PT Wismilak Inti Makmur recorded a maximum stock *return* value of 2.214286 in 2020, while PT Industri Jamu dan Farmasi Sido had a minimum value of -0.973966 in 2022. The dividend policy variable (DPR) shows an average of 0.554880, a median of 0.438929, and a standard deviation of 0.415626, with PT Delta Djakarta recording a maximum value of 2.529098 in 2020, while PT Alkindo Naratama has a minimum value of 0.015429 in 2019. Debt policy (DER) has an average of 0.635836, a median of 0.445960, and a standard deviation of 0.628843, with PT Unilever Indonesia recording a maximum value of 3.928398 in 2023, while PT Supreme Cable Manufacturing Corporation has a minimum value of 0.067269 in 2021.

The *free cash flow* variable has an average of 0.084067, a median of 0.071607, and a standard deviation of 0.101853, with PT Unilever Indonesia recording a maximum value of 0.405225 in 2022, while PT Alkindo Naratama has a minimum value of -0.208216 in the same year. Dividend policy that moderates *free cash flow* has an average of 0.060404, a median of 0.024940, and a standard deviation of 0.099646, with PT Delta Djakarta recording a maximum value of 0.488156, while PT Kalbe Farma has a minimum value of -0.087396. Debt policy that moderates *free cash flow* has an average of 0.070221, a median of 0.030089, and a standard deviation of 0.216836, with PT Unilever Indonesia recording a maximum value of 1.481171, while PT Alkindo Naratama has a minimum value of -0.218684.

Data Analysis Assumption Test Results

Table 4. Normality Test Results



From the graph above, 0.137809 has a probability greater than 0.05. Thus, the residuals of the regression model are regularly distributed, fulfilling the assumption of normality.

Table 5. Multicollinearity Test Results

Variance Inflation Factors
Date: 05/03/25 Time: 20:53
Sample: 1 175
Included observations: 175

Variable	Coefficient Variance	Uncentered VIF	Centered VIF

C	0.003082	4.355400	NA
DPR	0.008944	6.061831	2.170680
DER	0.005741	6.469708	3.189816
DPR_FCF	0.293331	5.604569	4.092204
DER_FCF	0.083323	6.085003	5.504408

Variable	VIF	Tolerance
DPR	2.17068	0.460685
DER	3.189816	0.313498
DPR_FCF	4.092204	0.244367
DER_FCF	5.504408	0.181673

From the results above, it can be seen that all variables have VIF values < 10 and Tolerance > 0.10. Thus, it can be concluded that the regression model is free from *multicollinearity* problems.

Table 6. Heteroscedasticity Test Results

Heteroskedasticity Test: Glejser

F-statistic	2.122531	Prob. F(4,170)	0.0801
Obs*R-squared	8.324111	Prob. Chi-Square(4)	0.0804
Scaled explained SS	13.60114	Prob. Chi-Square(4)	0.0087

The previous data shows that the Prob. Chi-Square (Obs*R-squared) is 0.0804, which exceeds 0.05. Since the model does not have heteroscedasticity, it can be used for regression analysis.

Table 7. Autocorrelation Test Results

Dependent Variable: RS
Method: Panel Least Squares
Date: 05/03/25 Time: 20:51
Sample: 2019 2023
Periods included: 5
Cross-sections included: 35
Total panel (balanced) observations: 175

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.239194	0.088305	2.708720	0.0074
DPR	0.225979	0.073008	3.095253	0.0023
DER	0.241837	0.062231	3.886130	0.0001
DPR_FCF	0.199548	0.085524	2.333249	0.0208
DER_FCF	0.151974	0.073008	2.081603	0.0389

R-squared	0.735710	Mean dependent var	0.389255
Adjusted R-squared	0.703383	S.D. dependent var	0.335743
S.E. of regression	0.336311	Akaike info criterion	0.702546
Sum squared resid	16.73951	Schwarz criterion	0.839991
Log likelihood	-47.44732	Hannan-Quinn criter.	0.758373
F-statistic	3.862737	Durbin-Watson stat	2.000000
Prob(F-statistic)	0.002090		

Based on the regression output results in table 7, the Durbin-Watson value is 2.000000. This value is right at number 2, which indicates that the model does not experience autocorrelation. Thus, the assumption of free autocorrelation has been fulfilled.

Data Analysis Results

The Chow test in this study is used to select between the common effects and fixed effects models. H0 is rejected if the *cross section* probability < 0.05, which indicates the fixed effects model is the best for panel data estimation. If the *cross section* probability > 0.05, the common effect model is recommended.
Hypothesis equation of *common effect model* and *fixed effect model*:
H0 : *Common Effect Model (*CEM)
Ha: *Fixed Effect Model* (FEM)
The following are the results of the chow test:

Table 8. *Chow* Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.372132	(34,136)	0.1051
Cross-section Chi-square	51.612844	34	0.0270

Data source: Processing results using *Eviews 13*

Based on table 8, the probability value for cross-section F is 0.0270 which means it is smaller than 0.05, so H0 is rejected and Ha is accepted so that in this study the Fixed Effect Model should be used.

After conducting the chow test, the hausman test will then be conducted to determine which model is best used, namely between *fixed effect* and *random effect*. If there is a *Chi-Square* probability value <0.05, then a good model to use is to use the *fixed effect model*. But if the *Chi-square* probability value> 0.05, then the good model to use is to use the *random effect model*.

The hypothesis equation contained in the Hausman test, namely:
Ho: *Fixed Effect Model* (FEM)
Ha: *Random Effect Model* (REM)

Table 9. Hausman *Test* Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.669383	4	0.4526

Data source: Processing results using *Eviews 13*

Based on table 9, the cross section probability is 0.4526, which is greater than 0.05, so Ha is accepted and Ho is rejected. Thus, the Random Effects Model is accepted.

After the Hausman test, the *Lagrange* multiplier test determines the optimum model: random effects or common effects. The general effects model is used if the *Breusch-Pagan* (*Cross-section One-sided*) probability > 0.05. If the probability value <0.05 Ho is rejected, the model has random effects. The hypothesis equation contained in the Lagrange multiplier test, namely:
Ho: *Common Effect Model* (CEM)
Ha: *Random Effect Model* (REM)

Table 10. Lagrange Multiplier Test Results

Lagrange multiplier (LM) test for panel data
Date: 05/03/25 Time: 20:05
Sample: 2019 2023
Total panel observations: 175
Probability in ()

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	0.705503	0.853050	1.558553
	(0.4009)	(0.3557)	(0.2119)
Honda	0.839942	0.923607	1.247018
	(0.2005)	(0.1778)	(0.1062)
King-Wu	0.839942	0.923607	1.146158
	(0.2005)	(0.1778)	(0.1259)
GHM	--	--	1.558553
	--	--	(0.2206)

Data source: Processing results using *Eviews 13*

Based on the results of table 10 above, the probability of the breusch-pagan test shows a value of 0.4009 which is greater than 0.05. it can be concluded that Ho is accepted, which means that the most appropriate model to use is the *common effect model.*

Table 11. Multiple Linear Regression Test Results

Dependent Variable: RS
Method: Panel Least Squares
Date: 05/03/25 Time: 20:51
Sample: 2019 2023
Periods included: 5
Cross-sections included: 35
Total panel (balanced) observations: 175

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.239194	0.088305	2.708720	0.0074
DPR	0.225979	0.073008	3.095253	0.0023
DER	0.241837	0.062231	3.886130	0.0001
DPR_FCF	0.199548	0.085524	2.333249	0.0208
DER_FCF	0.151974	0.073008	2.081603	0.0389

R-squared	0.735710	Mean dependent var	0.389255
Adjusted R-squared	0.703383	S.D. dependent var	0.335743
S.E. of regression	0.336311	Akaike info criterion	0.702546
Sum squared resid	16.73951	Schwarz criterion	0.839991
Log likelihood	-47.44732	Hannan-Quinn criter.	0.758373
F-statistic	3.862737	Durbin-Watson stat	2.000000
Prob(F-statistic)	0.002090		

Data source: Processing results using *Eviews 13*

Based on the multiple linear regression equation, the constant value of 0.239194 shows a positive effect on the independent and moderation variables, so that stock returns are worth 0.239194 if the dividend policy (DPR), debt policy (DER), and moderation variables are worth 0. The regression coefficient of dividend policy with the *Dividend Payout Ratio* (DPR) proxy of 0.225979 indicates that a one-unit increase in dividend policy will increase stock returns by 0.225979, assuming other variables remain constant. Meanwhile, debt policy with the *Debt to Equity Ratio* (DER) proxy has a regression coefficient of 0.241837, which means that a one-unit increase in debt policy will increase stock returns by 0.241837. The interaction between dividend policy and *Free Cash Flow* (FCF) has a regression coefficient of 0.199548, indicating that a one unit increase in this interaction will increase stock *returns* by 0.199548. Similarly, the interaction between debt policy and *Free Cash Flow* has a

regression coefficient of 0.151974, indicating that a one unit increase in this interaction will increase stock returns by 0.151974.

Table 12. Determination Test Results (R2)

Dependent Variable: RS
Method: Panel Least Squares
Date: 05/03/25 Time: 20:51
Sample: 2019 2023
Periods included: 5
Cross-sections included: 35
Total panel (balanced) observations: 175

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.239194	0.088305	2.708720	0.0074
DPR	0.225979	0.073008	3.095253	0.0023
DER	0.241837	0.062231	3.886130	0.0001
DPR_FCF	0.199548	0.085524	2.333249	0.0208
DER_FCF	0.151974	0.073008	2.081603	0.0389

R-squared	0.735710	Mean dependent var	0.389255
Adjusted R-squared	0.703383	S.D. dependent var	0.335743
S.E. of regression	0.336311	Akaike info criterion	0.702546
Sum squared resid	16.73951	Schwarz criterion	0.839991
Log likelihood	-47.44732	Hannan-Quinn criter.	0.758373
F-statistic	3.862737	Durbin-Watson stat	2.000000
Prob(F-statistic)	0.002090		

Data source: Processing results using *Eviews 13*

Based on table 12 beyond the findings of the R-squared coefficient of determination test of 0.735710. The results show that dividend policy, debt policy, and the interaction between dividend policy and free cash flow and debt policy and free cash flow explain 73.57% of the impact on stock returns. The remaining 26.43% is explained by variables that are not in this research model.

Table 13. Simultaneous Test Results (F Test)

Dependent Variable: RS
Method: Panel Least Squares
Date: 05/03/25 Time: 20:51
Sample: 2019 2023
Periods included: 5
Cross-sections included: 35
Total panel (balanced) observations: 175

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.239194	0.088305	2.708720	0.0074
DPR	0.225979	0.073008	3.095253	0.0023
DER	0.241837	0.062231	3.886130	0.0001
DPR_FCF	0.199548	0.085524	2.333249	0.0208
DER_FCF	0.151974	0.073008	2.081603	0.0389

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Log likelihood	-47.44732	Hannan-Quinn criter.	0.758373
F-statistic	3.862737	Durbin-Watson stat	2.000000
Prob(F-statistic)	0.002090		

Data source: Processing results using *Eviews 13*

Based on the results of the F test using the *Common Effect Model (CEM*), the Prob (F-statistic) value shows 0.002090, below the significance threshold of 0.05. In this study, dividend policy, debt policy, and a combination of dividend policy, debt policy, and *free cash flow* have a significant effect on stock returns.

Table 14. T Statistical Test (T Test)

Dependent Variable: RS
Method: Panel Least Squares
Date: 05/03/25 Time: 20:51
Sample: 2019 2023
Periods included: 5
Cross-sections included: 35
Total panel (balanced) observations: 175

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.239194	0.088305	2.708720	0.0074
DPR	0.225979	0.073008	3.095253	0.0023
DER	0.241837	0.062231	3.886130	0.0001
DPR_FCF	0.199548	0.085524	2.333249	0.0208
DER_FCF	0.151974	0.073008	2.081603	0.0389

R-squared	0.735710	Mean dependent var	0.389255
Adjusted R-squared	0.703383	S.D. dependent var	0.335743
S.E. of regression	0.336311	Akaike info criterion	0.702546
Sum squared resid	16.73951	Schwarz criterion	0.839991
Log likelihood	-47.44732	Hannan-Quinn criter.	0.758373
F-statistic	3.862737	Durbin-Watson stat	2.000000
Prob(F-statistic)	0.002090		

Data source: Processing results using *Eviews 13*

The analysis shows that dividend policy, proxied by *Dividend Payout Ratio* (DPR), has a positive and significant effect on stock returns with a regression coefficient of 0.225979 and a probability of 0.0023, so $Ha_1$is accepted. *Debt* policy proxied by *Debt to Equity Ratio* (DER) also has a positive and significant effect with a regression coefficient of 0.241837 and a probability of 0.0001, so $Ha_2$is accepted. In addition, the interaction between dividend policy and *free cash flow* has a positive coefficient of 0.199548 and a probability of 0.0208, which indicates that *free cash flow* moderates the impact of dividend policy on stock returns, so $Ha_3$is accepted. However, the interaction between debt policy and *free cash flow* has a positive coefficient of 0.151974 with a probability of 0.3890, which indicates that *free cash flow* actually reduces the impact of debt policy on stock *returns*, so $Ha_4$is accepted.

Discussion

1. The Effect of Dividend Policy on Stock Returns

This study identifies stock return as the dependent variable, with dividend policy measured using the *Dividend Payout Ratio* (DPR) *proxy*. The analysis results show that dividend policy has a coefficient of 0.225979 and a probability of 0.0023, which is below the significance level of 0.05, so dividend policy has a positive effect on stock returns and this research hypothesis is supported. This finding is in line with the research of Ningsih and Maharani (2022) which states that dividend policy increases stock returns, but is different from the results of the study of Ni Luh et al. (2020) which states that dividend policy has no effect on stock returns. Therefore, dividend policy can be used by managers to shape investor perceptions, where consistent dividends can increase investor confidence and stock returns.

2. The Effect of Debt Policy on Stock Returns

This study analyzes the effect of debt policy on stock returns using the *Debt to Equity Ratio* (DER) proxy as the independent variable and stock returns as the dependent variable. The regression results show that debt policy has a coefficient of 0.241837 with a probability of 0.0001, which is below the significance level of 0.05, so that this research hypothesis is supported and debt policy is proven to have a significant effect on stock

returns. This finding contradicts the results of research by Hijrah et al. (2023) which states that debt policy significantly increases stock returns, and Widi et al. (2016) who concluded that debt policy does not affect stock performance. This study emphasizes that debt management can increase shareholder value, especially in the manufacturing sector which requires large amounts of working capital and investment funding.

3. The Effect of Dividend Policy Interaction with *Free Cash Flow* on Stock Returns

This study analyzes the interaction between dividend policy and free cash flow using the *Dividend Payout Ratio* (DPR) and *Free Cash Flow* (FCF) proxies, with stock returns as the dependent variable. The regression results show that the interaction of dividend policy on free cash flow has a coefficient of 0.199548 with a probability of 0.0208, lower than the significance level of 0.05, so the hypothesis is accepted and free cash flow is proven to significantly moderate the effect of dividend policy on stock returns. This finding supports the research of Lestari and Wijaya (2020) which states that free cash flow strengthens the impact of dividend policy on stock returns, but contradicts the results of the Yuliana and Handayani (2019) study which states that free cash flow has no effect on dividend policy in increasing stock returns. Thus, this analysis confirms that dividend policy and free cash flow have an important role in stock performance, where investors tend to see dividend distribution as an indicator of financial stability if the company has sufficient free cash flow.

4. The Effect of Debt Policy Interaction with *Free Cash Flow* on Stock Returns

This study shows that the interaction between debt policy and *Free Cash Flow* (FCF), as measured by the *Debt to Equity Ratio* (DER) proxy, has a coefficient of 0.151974 with a probability of 0.0389, which is below the 0.05 significance level. This finding confirms Putri and Rachmawati (2020) that FCF moderates the impact of debt policy on stock returns, but contradicts Sri Murni (2019), who states that FCF does not affect debt policy. The results of this analysis indicate that debt policy affects stock returns more when FCF acts as a moderating variable, because investors tend to believe that debt can be managed well if the company has sufficient FCF, thus increasing market confidence and stock returns.

CONCLUSION

This study analyzes the effect of dividend policy, debt policy, and *Free Cash Flow* on stock returns in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period, with a sample of 35 companies and 175 panel data observations analyzed using EViews 13. The results showed that dividend policy and debt policy have a positive and significant effect on stock returns, in accordance with the findings of Ningsih and Maharani (2022) and Hijrah Fathonah et al. (2023). In addition, *Free Cash Flow* acts as a moderating variable that strengthens the impact of dividend policy on stock returns, as stated by Lestari and Wijaya (2020), and moderates the effect of debt policy on stock returns as found by Putri and Rachmawati (2020). Thus, this study confirms that financial policy and free cash flow have a significant impact on the stock performance of manufacturing companies in Indonesia.

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