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The Effect of Financial Performance on Stock Returns of Non-Banking Companies in Indonesia

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Abstract: This study objectively examines how financial performance metrics affect stock returns. ROA, ROE, CR, DER, and EVA are being examined. This study uses secondary data from external sources. This study used purposive sampling to choose a sample based on criteria. This study covers 2015–2023 Indonesia Stock Exchange (IDX) LQ 45 Index non- banking companies. Companies from the LQ 45 Index and Sri Kehati Index were carefully selected for the sample. The sample included 46 non-banking firms. As the best analysis model,panel data regression with fixed effect was used. Insignificant association exists between ROAand stock returns.

Keyword: Financial Performance, Return on Assets, Return on Equity, Current Ratio, Debt to Equity Ratio, Economic Value Added, Stock Returns

INTRODUCTION

Indonesia's economic growth is influenced by both internal and external variables. Internal elements include unemployment rates, foreign exchange reserves, inflation rates, infrastructure, and other similar factors. On the other hand, external factors consist of investment, exports, imports, exchange rates, and other related issues. Furthermore, the expansion of the capital market in Indonesia displays a consistent annual increase in number of transactions. The capital market plays a crucial role in a nation's economy as it serves as a platform for companies to secure funds from investors, which are then utilised for business growth, expansion, and additional working capital. Additionally, it provides the general public with an avenue to invest in various financial instruments. All stock market investors want high profits. However, huge stock returns have hazards.

Efficient utilization of firm resources by management has a significant influence on the overall economy of the country, as highlighted by Naser & Mokhtar (2014). The main objective of evaluating financial performance is to analyze the operational and financial characteristics, along with the effectiveness and efficiency, of the management's economic entity. This assessment is derived from the

data presented in the financial records and reports. (Bhunia, 2020). Performance measurement is crucial as it relies on outcomes and influences decision-making in economic entities. Performance measurements, as stated by Sakunasingha (2016), are vital for economic units as they serve as the foundation for decision-making. Financial performance measurements are crucial indicators of performance for economic entities. Financial performance measurements serve as indicators for assessing the effectiveness of economic entities in attaining predetermined plans, objectives, and key success elements. (Lahtinen, 2019). Hansen and Mowen (2015) The performance of a company holds great significance for management, as it reflects the accomplishments of individuals or groups within the organisation in fulfilling their roles and responsibilities to achieve goals in a lawful and ethical manner. Performance is determined by an organization's capacity to obtain and effectively handle resources through various means in order to gain a competitive edge.

A certain financial investment is required to maintain the operational efficiency of the firm and achieve the predetermined objectives in the foreseeable future. When a company's financial needs grow alongside its expansion and it has already used up a large portion of its internal funds, the only option left is to secure financing from other sources. Companies have the option to fulfil their financial requirements by either issuing shares or acquiring debt. The reference is taken from a study carried out by (Berkowitz et al., 2014). The average person, as investors, aim to make profitable investments soon (Li et al., 2020). Investing in stock market attracts individuals interested in making investments and those with available funds to engage in investment activities (Antônio et al., 2015).

Capital market buyers and sellers like shares. (2019, Ahmed & Elsayed). Coşkun et al. (2017) concluded that investors invest in stocks too little despite their higher returns than bonds. Investing in stocks is considered very dangerous due to the trade-off between high risk and high reward compared to low risk and poor reward. The source of this information is Cieslak and Schrimpf's publication from 2019. Investors must possess a comprehensive comprehension of equities and the fluctuations in stock prices. This can be accomplished by conducting thorough pre-investment study and giving serious thought to the risks that may arise from different fluctuations in share prices. The mentioned references include Amini et al. (2020) and Aye et al. (2018). In order to achieve significant returns while mitigating potential risks, individuals investing in the stock market must possess a keen analytical mindset and the ability to carefully identify stocks that hold promise as investment opportunities (Al-Khazali, 2014).

There are two methods of analyzing stocks, technical analysis as well as fundamental analysis, which can help identify profitable stock investments. (Agustin, 2019). Technical analysis places a higher emphasis on the data on changes in stock prices. Investors utilise historical data to forecast potential future price trends and assess the level of market activity. Similar to a private equity analyst, fundamental analysis offers an impartial assessment of a stock's worth by carefully scrutinizing a company's financial records and performance using various financial metrics. Through the process of fundamental analysis, a more precise comprehension of a company's overall financial situation can be obtained. Some of the references cited are Tan et al. (2019) and Thampanya et al. (2020). Given these essential methodologies can offer insights into a company's financial performance, which in turn impacts its profitability, they were selected for this inquiry. Financial ratios are quantitative measurements that can be utilised to assess a company's financial situation in a more comprehensive manner. Financial ratios of a firm serve as a valuable instrument for evaluating the overall well-being of the organisation. Various financial ratios provide insights into liquidity, solvency, profitability, activity, and market value. The citation is from Olson and Zoubi's work published in 2017.

When evaluating corporate performance and forecasting stock prices, it is crucial to consider other financial ratios as well as the size of the company. Companies that can attract investors are those that demonstrate consistent strong track record of consistent financial success. By conducting a comprehensive examination of the company's financials, valuable insights can be revealed regarding its strengths and weaknesses (Chinedu et al., 2014). The price of a company's stock increases when there is a high demand for it due to positive expectations about the company's performance, and decreases when there is low demand due to negative expectations. Investors from various countries,

including the United States, are increasingly attracted to acquiring stocks in infrastructure, utilities, and transportation sectors. Furthermore, the Indonesian government is implementing measures to enhance the expansion of these enterprises, aligning them with global norms and fostering a more efficient economic framework within the nation. Annually, there is a rise in the allocated funds for infrastructure. If infrastructure, utilities, and transport are well managed, they can contribute to the long-term viability of the national economy. Stocks in essential sectors such as utilities, transport, and key infrastructure in Indonesia are well-equipped to withstand market volatility with assurance. The capital market plays a crucial role in driving stock fluctuations across various organizations, resulting in achievable outcomes. It is possible to gain useful insights into the financial well-being of a company by doing an analysis of its financial ratios. We are dedicated to delivering a comprehensive study of the various financial linkages and metrics that indicate the past financial state of the firm as well as the operational effectiveness of the business. Understanding the importance and the effectiveness of financial ratios in business practice is heavily influenced by the methods and applications of the analyses. (Dalnial et al., 2014; Foowe, 2017). Examining a company's performance over a specific period can be significantly enhanced by utilizing financial ratios. These ratios offer valuable insights into the financial well-being, stability, and future potential of a company. (Kariyawasam, 2019; Mulyawan, 2015). Gaining a comprehensive understanding of financial statements and conducting in-depth analysis of financial ratios is crucial when conducting thorough financial ratio research. (AlNasser, 2014). Analyzing financial ratios continues to be a valuable tool in real-world corporate operations. Financial ratio analysis can be a valuable tool for analyzing various aspects of a company's financial performance. Its usefulness, however, may vary depending on specific target and interests of each investigation. Nonetheless, it is widely acknowledged as a frequently utilised model for analysis.

Examining a company's financial statistics can provide valuable insights into its financial well-being. The corporation assumes the responsibility of providing clarity on the different financial relationships and indicators that demonstrate changes in the organization's past financial condition or operational efficiency. Appreciating the importance and function business practice financial ratios hinges on the method and implementation of the research. (Dalnial et al., 2014; Foowe, 2017). Analyzing financial ratios can provide valuable insights into a company's performance during a given period. These ratios provide valuable insights into the financial health, position, and future economic outlook of a company. (Kariyawasam, 2019; Mulyawan, 2015). Understanding financial statement interpretation and analyzing financial ratios is crucial when conducting financial ratio research. (AlNasser, 2014). Financial ratio analysis is commonly utilized as a framework in real-world company operations. Assessing value through financial ratio analysis is a commonly employed method, with its effectiveness being influenced by the specific goals and interests of each study.

Previous research conducted by Arnova (2016) demonstrates that both ROA and EVA have a favourable impact on stock returns. Nurhikmawaty, Isnurhadi, and Widiyanti (2020) discovered that the return on equity (ROE) and debt-to-equity ratio (DER) had a noteworthy impact on the returns of stocks. Santosa (2019) asserted that the CR proxy exerts a substantial impact on stock returns. According to Malinggato, Taroreh, and Rumokoy (2018), the study found that both CR and DER do not have any impact on stock returns. However, it was observed that only ROE has a significant influence on stock returns. Supriantikasari and Utami (2019) discovered that the variables ROA, DER, and CR do not exert any influence on stock returns. Tumonggor, Murni, and Rate (2017) assert that the variables of Return on Equity (ROE), Debt to Equity Ratio (DER), and Current Ratio (CR) do not have any impact on stock returns. According to Chandra's (2019) findings, the return on equity (ROE) does not have a noteworthy impact on stock returns. However, the debt-to-equity ratio (DER) does have a considerable influence on stock returns. The study conducted by Sari, Rois, and Pandiya (2019) demonstrates that EVA does not have a statistically significant impact on stock returns (Marsono et al., 2018).

The findings of prior studies exhibit significant variation, with each researcher drawing distinct conclusions from one another. The existence of contradictory study results provides the impetus to

conduct additional research on the correlation between the performance of companies and the returns on their stocks. This research stands out due to its unique research duration, the variables used, and the focus on non-banking entities in the research sample. The researchers selected non-banking organisations due to their similar characteristics in financial ratio assessment. The objective of this study is to offer empirical proof that the calculation of stock returns can rely on financial performance.

The authors aim to address how it impacts financial performance, as measured by variables such as return on assets, return on equity, current ratio, debt to equity ratio, and economic value added, and stock returns of non-banking companies listed on the LQ 45 Index and the Sri Kehati Index on the Indonesia Stock Exchange (BEI) 2015-2023.

METHOD

The authors employed panel data regression analysis, a method that combines time series and cross-section data, to examine the relationship between the factors under consideration and the variable of interest. The author chooses independent variables based on profitability ratios, specifically return on assets (ROA) and return on equity (ROE). In addition, the liquidity ratio is equivalent to the current ratio (CR), while the solvency ratio consists of the debt to equity ratio (DER) and economic value added (EVA). The chosen dependent variable is the stock return. This study examines the performance of non-banking companies listed in the LQ 45 Index from February to July 2023, along with the Sri Kehati Index from November 2019 to April 2023. This study makes use of financial statement data acquired from public firms via the Indonesia Stock Exchange (IDX) website and the official websites of the respective companies. The data spans from 2015 to 2023.

The study examined non-banking companies that were part of the LQ 45 Index group and the Sri Kehati Index. There are a combined 46 companies in the LQ 45 Index and Sri Kehati Index groupings. This research used purposive sampling, which relies on specific criteria or parameters established by the author. The data analysis technique use panel data regression analysis to determine whether there is a causal relationship between the independent variable and the dependent variable. In this study, three model tests will be conducted to determine the most suitable model: the Chow test, the Hausman test, and the Lagrange Multiplier test. In addition, the research is supported by doing classical assumption testing, which involves tests for normalcy, multicollinearity, heteroscedasticity, and autocorrelation.

Panel data techniques use various criteria, such as the Chow test, to determine the most reliable model. The purpose of this study is to determine whether or not the models, namely the fixed effects model and the common effects model, are suitable for the estimation of panel data. When it comes to determining whether a fixed effects model or a random effects model is more appropriate for a certain situation, the Hausman test is an extremely helpful instrument. After obtaining the optimal model, it is crucial to check for multicollinearity, heteroscedasticity, and normal distribution in the data. The regression model utilized in this study is the panel data regression model.

$$Stock\ Return = \alpha + \beta 1ROAit + \beta 2ROEit + \beta 3CRit + \beta 4DERit + \beta 5EVAit + \varepsilon.$$

RESULT AND DISCUSSION

Table 1 explain the statistics for each variable. You can get it here. The Current Ratio (CUR) test yielded a range of results, with the lowest value being 3,933 and the highest value being 6,543. The average value was 5,867, with a standard deviation of 0,878. Having a high ratio doesn't automatically mean the company is doing great. It could actually mean that the company is not effectively using its current assets, regardless of how big the ratio is. Conversely, if given the option, we would prefer a high ratio over a low one. Undoubtedly, this is true. When firms own excessively high current ratios, they should prioritise enhancing the efficacy of their financial management.

Tabel 1. Displays Descriptive Statistics

Indicator	EVA	CUR	ROE	ROA	DER

Mean	7,950	5,867	5,498	1,225	5,368
Maximum	9,287	6,543	7,792	2,822	7,811
Minimum	6,549	3,933	3,650	-1,851	3,423
Std. Dev.	0,975	0,878	0,998	0,950	0,915
Observations	276	276	276	276	276

Sources: Processed Data, 2023

The ROE index ranges from a minimum value of 3,650 to a maximum value of 7,792. The average value is 5,498, with a standard deviation of 0,998. One often used method to assess a firm is by comparing its net income to the total equity it has earned during a specific time frame. The objective of this comparison is to determine if the company offers a higher-priced share compared to its competitors. However, while comparing the two data, it is crucial to include the similar qualities of both organisations, as this is deemed necessary. Investors must evaluate two businesses with identical characteristics, whether at the company or industry level, as it holds great significance. Ensuring uniformity in the criteria of these companies is crucial. If the two entities are dissimilar, it becomes unfeasible to establish a valid basis for comparison between them.

The ROE index ranges from a minimum of 3,650 to a maximum of 7,792. The average value is 5,498, and it has a standard deviation of 0,998. One way to assess a company is by analyzing its net income in relation to its total equity over a specific time frame. The objective of this analysis is to examine if the company offers a higher-priced share compared to its competitors. When analyzing the two datasets, it is important to consider the common traits of both organizations, as this is considered essential. It is crucial for investors to evaluate two businesses with identical qualities, whether at the company or industry level. Consistency in the criteria used by these companies is crucial. When two entities are not similar, it is impossible to establish a valid foundation for comparing them.

The debt to equity ratio (DER) has a minimum value of 3,423 and a standard deviation of 0,915. The average value of the DER is 5,638, and the standard deviation is 0,915. The value 7,811 is the highest that can be achieved. In general, a DER ratio that is greater than one hundred percent is considered to be unfavorable. As the Debt-to-Equity Ratio (DER) continues to fall, it is evident that the overall state of the company is increasing and showing signs of progress. When the ratio is low, it indicates that the overall value of the company's assets is lower than the whole amount of debt that the company has. Even in the event that the loan is not repaid on time, you may rest comfortable that the firm possesses the resources to fulfill all of its responsibilities and continue to run its business without interruption.

The EVA metric has a mean of 7,950, a standard deviation of 0,975, a minimum value of 6,549, and a maximum value of 9,287. Capital owners can utilise Economic Value Added (EVA) as an indicator to examine the financial well-being, which then impacts the share price and stock return.

When looking for the right model for the chow test, the first thing to consider is choosing between the common effects model and the fixed effects model. If the probability value exceeds 5%, the common effects model will be considered the optimal alternative, according to the findings of the Chow test. On the other hand, in the event that the probability value is lower than 5%, the fixed effects model will be chosen as the option that is the most suitable. When the findings of the chow test are taken into consideration, it is clear that the likelihood value is lower than 5%. In light of the findings of the investigation, it would appear that the fixed effects model is the option that is most suited to the circumstances that now exist.

Table 2. Best Model

Chow		**Hausman**	
Prob. Cross-Section E	0.0000	Prob. Cross-section Random	0.0000

Sources: Processed Data, 2023

Our investigation started with the Chow test to find the best model. We then used the common

or fixed effects model. If the Chow test p-value is more than 5%, the common effect model is preferred. If the likelihood is below 5%, the fixed effect model is utilized. If the Chow test yields less than 5%, we shall temporarily use the fixed effects model. After the Chow exam, the Hausman test is next. The Hausman test helps choose a fixed or random effects model for data analysis. A random-effects model is needed if the Hausman test p-value reaches 5%. We use the fixed-effects model if the probability is below 5%. The Hausman test shows that the fixed-effects model is suitable for this analysis because the probability is below 5%. After choosing the right model, we must assess traditional assumptions. This method ensures regression equation dependability, consistency, and fairness. The data in this investigation follow a normal distribution, according to the normality test. Jarque-bera likelihood is greater than 5%, supporting this.

Tabel 3. Regression Diagnostic

Diagnostic	Indicator	Value	Probability
Normality	Jarge-Bera	1,9251	0,3819
Heteroskedasticity	White	1,5346	0,2347

Sources: Processed data, 2023

Once the normality test has been completed, it becomes crucial to perform multicollinearity testing in order to assess any potential correlations between variables that are typically assumed to be independent. When there is a correlation between independent variables, they can no longer be seen as independent from each other. Examine the correlation matrix that encompasses the independent variables. Typically, multicollinearity arises when there is a strong correlation coefficient exceeding 0.9 among the independent variables. When the independent variables show a strong correlation, it suggests the presence of multicollinearity. Although the independent variables may not have a strong correlation, it does not guarantee the absence of multicollinearity in the data. Multicollinearity occurs when the impact of multiple independent variables becomes evident.

The test results of the correlation matrix show that all variables have values below 0,9. A statistical test was used to evaluate the presence of heteroscedasticity. Based on the results, it appears that there is a probability greater than 5 percent. This suggests that the residuals have a consistent variance and there is no issue of heteroscedasticity. The heteroscedasticity test assesses whether the residuals have uniform variances, suggesting that they do not display fluctuating variances. In order for the heteroscedasticity test to be deemed valid, it is essential that the residuals display consistent variances. When the probability of Obs*R-squared exceeds 5 percent, it suggests that the residuals meet the test requirements by being either randomly distributed or having uniform variances. There may be a potential absence of heteroscedasticity. The Obs*R-squared score is 1,5346, also the corresponding probability of 0,2347 suggests that there is no heteroscedasticity in the test results.

Tabel 4. Findings from Multicollinearity Analysis

	CUR	ROE	ROA	DER	EVA
CUR	1,0000	-0,6821	0,0498	-0,4797	0,2435
ROE	-0,6821	1,0000	0,2468	0,7447	-0,1969
ROA	0,0498	0,2468	1,0000	0,1351	0,6525
DER	-0,4797	0,7447	0,1351	1,0000	-0,0500
EVA	0,2435	-0,1969	0,6525	-0,0500	1,0000

Sources: Processed data, 2023

For the purpose of determining which model would be the most suitable to use, the research made use of a fixed-effect model. It was not possible to observe any signs of autocorrelation, multicollinearity, heteroscedasticity, or normalcy in the reslut. Research findings can be found in table 5. Regression equation is derived from the panel data test results using the fixed-effect model, just like a certified management accountant (CMA) would do.

$$\textit{Stock Return} = 4{,}212 + 0{,}426\,CURit + 0{,}552\,ROEit - 0{,}071\,ROAit - 0{,}379\,DERit + 0{,}161\,EVAit + \varepsilon$$

The current ratio, as explained by Moyes et al. (2011) and Hunt-Ahmed (2013), is a measure of a company's capability in order to address immediate financial requirements. If the company cannot meet these needs, it faces liquidity risk, which in turn hinders its ability to fulfil obligations when investment opportunities arise.

The research findings presented in table 5 suggest that the current ratio has a significant positive influence on stock returns. After conducting an analysis of a number of different elements, it has been found that a slight increase of one percent in the current ratio is connected with a moderate increase of 0,426 percent in stock prices within the infrastructure, utilities, and transportation sectors. Fluctuating current ratio has a significant impact on stock prices. This discovery aligns with earlier research carried out by Santosa (2019) and Siahaan et al. (2021). Having a high current ratio is a sign of a company's robust financial position, as it means they can easily meet their short-term financial obligations by leveraging their current assets. The sources are cited as Durrah et al., 2016 and Husna & Satria, 2019. Having a strong current ratio can boost investor confidence in the company's ability to meet its short-term financial obligations. This definitely causes an increase in demand for the company's shares, leading to a rise in the share price (Irman et al., 2020).

Tabel 5. Fixed Effect Model

Variable	Coefficient	Std.Error	t-Statistic	Prob
CUR	0,426	0,089	4,752	0,0000
ROE	0,552	0,069	7,991	0,0000
ROA	-0,071	0,061	-1,162	0,2579
DER	-0,379	0,056	-6,741	0,0000*
EVA	0,161	0,064	2,480	0,0059
C	4,212	0,755	5,559	0,0000

Sources: processed data, 2023

Given that all other factors remain unchanged, a 1% increase in Return on Equity (ROE) going to be in a 0,552% enhance in the share price. Return on equity (ROE) has the potential to greatly influence the value of stocks. When assessing the rate of return on an investment, it is crucial for investors to consider the return on assets. This allows them to make informed decisions about their investments (Albulescu, 2015; Saksonova, 2014). Assuming everything else stays the same, a 1% increase in Return on Assets (ROA) will increase to 0,071% drop in non-banking stock prices. The firm's impressive profitability demonstrates its effective utilisation of resources to generate profits, resulting in an increase in the company's share price on the capital market. Alam et al. (2019) and Law et al. (2020) are the sources which have been cited.

Assuming everything else stays the same, a 1% boost in Return on Equity (ROE) will lead to a 0,552% uptick in the share price. The impact of return on equity (ROE) on stock value can be significant. When evaluating the profitability of an investment, it is essential for investors to take into account the return on assets. By staying well-informed through various sources (Albulescu, 2015; Saksonova, 2014), individuals are able to make educated choices regarding their investments. Assuming everything else remains constant, a 1% increase in Return on Assets (ROA) will increase to 0.071% decline in non-banking stock prices. The firm's impressive profitability demonstrates its effective utilization of resources to generate profits, resulting in an increase in the company's share price on the capital market. The sources cited are Alam et al. (2019) and Law et al. (2020).

EVA, or Economic Value Added, is a widely utilised management strategy. It is generally assumed that EVA should play a significant role in managers' decision-making process, as it is considered the most effective indicator of shareholder wealth. To attain this objective, it is necessary to tie a portion of executive remuneration to the company's Economic Value Added (EVA). Managers and investors are interested in the impact of Economic Value Added (EVA) on stock returns. EVA, or Economic Value Added, serves as a crucial performance metric that incentivizes organisations to enhance their efficiency in utilising capital and achieve superior operational results. According to Awan

et al. (2014), in theory, EVA should accurately represent the true value of the stock.

The findings indicate that Economic Value Added (EVA) has a notable and favourable impact on stock returns. A one percent increase in Economic Value Added (EVA) results in a 0,161 percent gain in the stock prices of non-banking companies, provided that all other variables remain same. With this in mind, it can be deduced that a rise in economic value added is directly proportional to an increase in stock returns, and vice versa. These findings suggest that the stock returns of the studied companies would grow in tandem with an increase in economic value added, and conversely, they will decline if economic value added decreases. The findings of this investigation are consistent with other prior studies (Arnova, 2016; Awan et al., 2014; Udiyana et al., 2022; Wayan & Anom, 2020). This discovery implies that enterprises that consistently enhance Economic Value Added (EVA) have a favourable influence on the performance of their stocks. Positive Economic Value Added (EVA) signifies that the company is generating value that exceeds its cost of capital. However, if there is an anticipated future reduction in the positive EVA, this may not be a robust indication for investors. On the other hand, if a company now has a negative Economic Value Added (EVA) but is projected to develop and become positive, this could be seen as a hint to buy. When a company efficiently handles its assets and effectively uses its finances for day-to-day operations, it becomes more appealing to potential investors looking to invest in the company's shares. (Irman et al., 2020). As demand rises, the company's stock price on the capital market experiences an upward trend, as observed in studies conducted by Rahman et al. (2018) and Saraswati & Suryantini (2019).

CONCLUSION

The objective of this research is to analyse the impact of various financial indicators on the stock prices of non-bank sector enterprises. The findings indicated that the overall economic value added (EVA) did not have any impact on the stock price. However, the currentratio, return on assets (ROA), return on equity (ROE), and the debt-to-equity ratio were all influential factors. Analyzing the smooth ratio, equity return, asset return, and debt-to-equity ratio can provide valuable insights for both experienced and inexperienced investors when it comes to making informed decisions about non-bank businesses. This is applicable to both investors who have made investments and investors who have not made investments. For corporations to enhance the value of their stocks, they must enhance their financial performance by optimising their spending in a more effective and efficient manner.

Limitations, as well as suggestions for additional research. Firstly, the research study includes the non-banking sector. Information gathered coming from various industries, which are thought to have unique outcomes, can be combined. This study explores the utilisation of additional variables that were not previously examined, with the aim of improving scientific understanding by including more recent data.

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