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The Effect of Profitability on Return of Banking Companies in Indonesia Stock Exchange

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ABSTRACT: The main objective of investors to invest in company shares is to maximize their wealth to be achieved through stock returns. This study aims to determine the effect of Net Profit Margin (NPM), Return on Assets (ROA), and Return On Equity (ROE) on stock returns. This research was conducted at banking companies on the Indonesia Stock Exchange (IDX) for the 2015-2018 period. The total population of 37 companies with a purposive sampling sample determination method obtained a sample of 26 companies. Data collection methods used are non-participant observation methods with multiple linear regression data analysis techniques. Based on the results of the analysis it was found that NPM and ROA had a significant positive effect on stock returns, while ROE had no significant positive effect on stock returns. Investors and interested parties are expected to pay attention to changes in NPM and ROA because they have an influence on stock returns, to make investment decisions.

KEYWORDS: *investment, stock returns, NPM, ROA, ROE*

I. INTRODUCTION

The main objective of investors to invest in company shares is to maximize their wealth to be achieved through market share returns (Musallam, 2017). For an investor, investing is an activity that involves the future and contains uncertainty; this indicates there is an element of risk in it. Knowledge about risk is an important thing that is owned by investors and potential investors. Before making an investment decision, a rational investor must at least consider two things, namely the expected income and the risks inherent in the investment alternatives he does. The risk of stock investment is reflected in the reliability of stock returns, both individual stock returns and full stock returns (market returns) in the capital market. The size of the investment risk in shares can be measured by the variance or standard deviation of the earnings of these shares (Nur and Hidayat, 2016).

Returns obtained by investors in the shares invested can be in the form of dividends and capital gains (losses). Capital gain (loss) is an increase (decrease) in stock prices that can provide profits (damages) to investors. Investors are very concerned about changes in stock prices because stock prices can affect the returns that investors will get. If a company's stock price decreases continuously then the return that will be obtained also decreases and even allows investors to experience capital loss so that investors will be afraid to invest their capital and few investors are willing to invest capital in the company.

In general, the stock returns decline due to falling stock prices which can occur due to rising inflation in Indonesia which results in a decrease in the level of public consumption so that people's desire to invest in a company, including banking companies, is reduced. The reduced investment activities carried out in Indonesia caused economic growth to slow down and the level of profitability of the company to decline, causing the company's performance to decline. The declining condition of the company's performance causes the stock price of the company to decrease and stock returns also decrease (idx.co.id). This can affect investor interest in investing in this company sector. Investors will be more careful investing in companies that experience a sharp return of investment because the purpose of investors making investments is to obtain returns, so investors need rational consideration by gathering various information needed before making investment decisions (Puspitadewi and Heny, 2016).

Along with the development of the capital market, the need for relevant information in making decisions by investors is also increasing. Capital market activities cannot be separated from the availability of various kinds of information about the issuer. Information for actors on the trading floor will affect various kinds of decisions to be taken which result in changes or fluctuations in both the price and quality of shares traded.

In determining whether an investor will make a transaction in the capital market, he will usually base his decision on various information he has (Novia, 2016: 2). Information obtained from internal company conditions that are commonly used is financial statement information. This information is used as a basis for investors to predict returns, risks, or uncertainties in the amount, time, and other factors associated with activities in the capital market (Fahmi, 2014: 279).

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Research on stock returns has been widely carried out and there are differences in the results of research from previous researchers, causing a research gap. Research on stock returns is given considering the importance of fundamental factors in influencing stock returns. Based on the phenomenon of many investors' interest in investing in banking companies as well as differences in the results of research from previous researchers regarding the effect of Net Profit Margin (NPM), Return On Assets (ROA), and Return On Equity (ROE) on stock returns, then this makes it interesting to be examined again so that it can be used as an in-depth study of the effect of Net Profit Margin (NPM), Return On Assets (ROA), and Return On Equity (ROE) on stock returns on banking companies on the Indonesia Stock Exchange.

Net profit margin is a ratio that measures how much the level of net profit of the company from each sale, meaning that here has been paying attention to operating costs, interest and corporate taxes (Sitanggang, 2014: 29). According to Harahap (2015: 304) the greater the ratio the better because it is considered the company's ability to get high enough profits. This will certainly attract investors to invest so as to increase share prices. Rising stock prices can increase returns obtained by investors, so that NPM will have a positive impact on stock returns.

This is supported by empirical evidence conducted by Indah (2016), Astuty (2017), and Ary et al. (2016) which states that NPM has a positive and significant effect on stock returns.

H1: NPM has a positive and significant effect on stock returns.

Return on Assets (ROA) is used to measure the effectiveness of a company in generating profits by utilizing its assets. The higher ROA shows the better company performance and shareholders will get an increase in profits from dividends received or stock returns and vice versa (Kasmir, 2012: 202). The company strives that ROA can always be improved because the higher ROA shows that it is more effective, the company utilizes its assets to generate net profit after tax and with increasing ROA the better the company's profitability. The company's ability to manage assets to make a profit has an appeal and is able to influence investors to buy shares and invest their funds in a company. This will cause the company's stock price will increase in other words ROA will have a positive impact on stock returns (Arista and Astohar, 2012).

This explanation is supported by research conducted by Ghasempour and Mehdi (2013), Haghiri (2012), Kabajeh et al. (2012), and Antara (2014) which states that ROA has a positive and significant effect on stock returns.

H2: Return On Assets (ROA) has a positive and significant effect on stock returns.

The high ROE value of a company can be interpreted that the ratio of net profit obtained by the company to the total own capital invested is also higher. This reflects the ability of companies to use equity in generating profits more effectively (Wijesundera et al., 2015). Return on equity has a positive correlation to stock prices, if the high ROE value means the company is able to generate profits with funds invested by investors effectively, effective company conditions in the use of equity or equity cause investors tend to be interested in owning company shares. The higher the company's ROE the demand for company shares also increases. This increase in stock demand will be followed by an increase in stock prices and returns.

Research conducted by Majangga (2015), Raju (2017), Sharif (2015), and Zaheri and Barkhordary (2015) found that ROE has a positive and significant effect on stock returns which means that the higher the ROE of a company, the higher its stock returns .

H3: Return on Equity (ROE) has a positive and significant effect on stock returns.

III. METHODS

This research was conducted on banking companies listed on the Indonesia Stock Exchange in the period 2015-2018 by taking data through the official website of the Indonesia Stock Exchange (www.idx.co.id). The population in this study, namely all banking companies that are consistently listed on the Indonesia Stock Exchange (IDX) for the period 2015-2018 with a total population of 37 companies. Determination of the sample of this study uses a purposive sampling technique that is sample selection using a consideration, while the consideration in selecting the sample in this study is data that is not included in the outlier.

In this study the data analysis technique used is multiple linear regression analysis. Multiple linear regression analysis techniques are used to answer existing problems and test hypotheses that have been determined, then the analysis method used is multiple regression analysis techniques (multiple regression). The multiple linear regression analysis technique is used to describe one dependent variable connected with the independent variable.

IV. RESULT AND DISCUSSION

The analytical model used in this study is multiple linear regression analysis. The multiple regression analysis in this study was processed using the Statistical Package for Social Science (SPSS) program. Multiple linear regression analysis techniques are used to describe one dependent variable associated with two or more independent variables. The purpose of this multiple linear regression analysis is to determine the effect of Net Profit Margin (X1), Return On Assets (X2), and Return On Equity (X3) on Stock Return (Y) on banking companies on the Stock Exchange in the period 2015-2018. The results of the multiple linear regression testing from this study are presented in Table 1 as follows:

Table 1
Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.037	0.079		-0.461	0.646
	NPM	0.568	0.078	0.561	7.251	0.000
	ROA	0.297	0.083	0.287	3.559	0.001
	ROE	0.143	0.085	0.138	1.685	0.095

Secondary Data, 2019

The results of the analysis in this study show the value of NPM is 7,251 with a significance of 0,000. The t-value is greater than the table, which is 1.983 and the significance level is smaller than the specified significance level, which is 0.05 so H0 is rejected and H1 is accepted, which means, the value of NPM will make a significant positive contribution to the stock returns of banking companies on the Stock Exchange Indonesia, namely an increase or decrease in NPM will have an impact on the increase or decrease in banking stock returns in the same direction. This means that when NPM rises, it will be followed by an increase in stock returns and when NPM decreases, stock returns will also decrease. Investors pay attention to the value of NPM in making decisions to invest in the banking sector. These results are consistent with the proposed hypothesis, where NPM has a positive and significant effect on stock returns. Net profit margin is a ratio that measures how much the company's net profit level from each sale, the greater the ratio of NPMs at the bank, the better it is because it is considered the ability to get high profits. This will certainly attract investors to invest and demand for bank shares also increases.

The increasing demand for shares in a company will also cause share prices to increase. Rising stock prices can increase returns obtained by investors. The results of this study are supported by research conducted by Indah (2016), Astuty (2017), and Ary et al. (2016) which shows that NPM has a positive and significant effect on stock returns.

The results of the analysis in this study show the value of the ROA tcount is 3.559 with a significance of 0.001. The t-value is greater than the table, which is 1.983 and the significance level is smaller than the specified significance level, which is 0.05 so that H0 is rejected and H1 is accepted, which means ROA value will make a significant positive contribution to the banking company's stock return on the stock exchange The Indonesian effect, namely an increase or decrease in ROA will have an impact on the increase or decrease in banking stock returns in the same direction. This means that when ROA rises, it will be followed by an increase in stock returns and when ROA decreases, stock returns will also decrease.

The results of the analysis are consistent with the proposed hypothesis, where ROA has a positive and significant effect on stock returns of banking companies. ROA is used to measure the effectiveness of the company in generating profits by utilizing its assets, the higher ROA shows the company's performance is better because the company's ability to generate profits from its assets is also higher so that from this shareholders will get increased profits from dividends. stock returns or returns, and vice versa. The higher ROA shows the more effective the company is using its assets to generate net profit after tax and with increasing ROA the better the company's profitability. The company's ability to manage assets to make profits has an appeal and is able to influence investors to buy shares and invest their funds in a company so that demand for shares will increase.

The increasing demand for shares in a company will also cause share prices to increase. Rising stock prices can increase returns obtained by investors. The results of this study are supported by research conducted by

Ghasempour and Mehdi (2013), Haghiri (2012), Kabajeh et al. (2012), and Antara (2014) which shows that ROA has a positive and significant effect on stock returns.
The results of the analysis in this study showed the t-value of the ROE variable was 1.685 with a significance of 0.095. The t-count value is smaller than the table, which is 1.983 and the significance level is greater than the specified significance level, which is 0.05 so that H0 is accepted and H1 is rejected. This shows that the Return on Equity (ROE) has a positive and not significant effect on the banking company's stock returns on the Indonesia Stock Exchange in the 2015-2018 period. The results of this study do not support research conducted by Majangga (2015), Raju (2017), Sharif (2015), and Zaheriand Barkhordary (2015) who find that ROE has a positive and significant effect on stock returns.
ROE is a profitability ratio that illustrates the extent of a company's ability to generate profits from its own capital. Increased ROE shows a better company performance. ROE has a positive effect on stock returns means the higher ROE, the ability of companies to use equity to generate profits is more effective so that it can attract investors to invest in the company and can make stock demand increase followed by rising stock prices and will cause stock returns to rise.
The results of the study get ROE does not have a significant effect on stock returns means the high and low ROE does not affect investors in making investment decisions because investors pay less attention to ROE in the company during the study period, investors invest their capital into the company not only see the capital factor of the company and pay more attention to the ratio other than ROE which is considered more influential on stock returns that will be considered in investing in a company.
From the results of the above research, this study strengthens the research conducted by Anistia et al. (2016), Febrioni (2016), and Anwaar (2016) who in their research found that ROE had a positive and not significant effect on stock returns.
The results of this study provide additional information about the effect of Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE) on stock returns. There is empirical evidence obtained through this research that shows that NPM and ROA have a positive and significant effect on stock returns in banking companies. This shows that the level of NPM and ROA will affect investors' decision making to invest. The results of this study also provide empirical evidence that ROE has a positive and not significant effect on stock returns of banking companies. Investors generally pay more attention to other ratios than ROE which are considered more influential on stock returns to decide to invest in a company.
The results of this study are expected to be taken into consideration by investors in making investment decisions. Investors can use profitability ratios namely Net Profit Margin (NPM), Return on Assets (ROA) in analyzing stock returns on companies so that investors can choose and obtain returns as expected.

V. CONCLUSION

Net Profit Margin (NPM) has a significant positive effect on banking company stock returns on the Indonesia Stock Exchange (IDX) for the 2015-2018 period. This means that the higher the NPM, the higher the profits of the banking company, which causes investors to be interested in investing in the company so that the stock price of the banking company rises and will increase stock returns. Return on Assets (ROA) has a significant positive effect on stock returns of banking companies on the Indonesia Stock Exchange (IDX) for the 2015-2018 period. This means that the higher ROA shows the better performance of banking companies that cause investors to be interested in investing in these companies, causing share prices to rise and will increase stock returns. Return on Equity (ROE) has an insignificant positive effect on banking company stock returns on the Indonesia Stock Exchange (IDX) for the 2015-2018 period.
Increased ROE shows better company performance so that it can attract investors to invest in the company and can potentially increase stock returns. However, ROE has no significant effect on stock returns because, during the observation period, investors pay less attention to ROE in the company. For companies, to pay attention to the company's profitability ratios, especially Net Profit Margin (NPM), Return on Assets (ROA), because based on research results it is proven that NPM and ROA variables have a significant positive effect on stock returns, the higher the NPM and ROA can be attract investors to invest their capital in the company so that the stock price increases.
For investors, this research is expected to provide information that can be considered in determining and deciding the investment to be made. Investors need to consider NPM and ROA in the company because these

variables have been partially proven to have a positive influence on stock returns. The next researcher should re-examine the factors that influence stock returns with a more extended research period and other variables outside of this research variable.

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