

## Analysis of the Influence of Company Fundamental Factors on Stock Returns (Empirical Study of Non-Financial Companies Listed on the Indonesia Stock Exchange 2003-2012)

Fitri Rosalina<sup>1\*</sup>, Jamalina Mieke Juniata<sup>2</sup>, Mamduh Mahmadah Hanafi<sup>3</sup>

<sup>1</sup>Perbanas Institute, Indonesia

<sup>2,3</sup>Universitas Gadjah Mada, Indonesia

**Corresponding Author:** Fitri Rosalina [fitrosalina@gmail.com](mailto:fitrosalina@gmail.com)

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### ABSTRACT

Analyzing the impact of fundamental parameters that concentrate on return on equity, return on assets, price to book value, earnings per share, price-earnings ratio, and debt-to-equity ratio on stock returns is the aim of this study. The study's participants are shares of non-financial companies that were listed between 2003 and 2012 on the Indonesia Stock Exchange. 73 businesses make up the sample size. The analysis method used in this research is with multiple linear regression analysis. The research findings indicate that while the price-earning ratio and return on equity have a positive correlation, they do not significantly impact stock returns. On the other hand, price to book value and earnings per share show a strong positive relationship. The variables of return on assets and debt to equity ratio are not significant and have a negative correlation with stock returns. However, this study confirms that investors continue to focus on fundamental criteria, particularly PBV and EPS, as a basis for predicting stock returns of non-financial companies on the Indonesia Stock Exchange.

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## INTRODUCTION

The capital market serves as a conduit for investors to engage in investment activities and provides finance for corporations and institutions, including governments. The capital market has a very important role for a country's economy. The progress of a country's economy depends on how the country manages funds effectively so that they can be channeled for productive investments to develop long-term growth. The role of the stock exchange determines how well the corporate sector may raise money from the capital market. The buying and selling of securities takes place on the stock exchange.

The Indonesian capital market is among the finest in the world in terms of performance. Investment in the capital market for 2015 has a good opportunity because the composite stock price index (IHSG) record has increased to the level of 5400 ([bisnis.news.viva.co.id](http://bisnis.news.viva.co.id)). During the last four months year to date (ytd) the Indonesian capital market is still being eyed by foreign investors because the foreign net buying position has reached Rp 40 trillion. Based on the latest data, the composition for local institutions is 83 percent and retail is 17 percent. While the foreign composition for institutions reaches 68 percent and retail is 32 percent ([ekonomi.metronews.com](http://ekonomi.metronews.com)).

Both internal and external variables influence the nation's economic status. The influence of external factors is the global economy, where in 2008 the financial crisis hit the United States caused by bad debts. Bad debts were caused by many of its citizens who could not pay their housing loans. This resulted in a global financial crisis and the global stock market plummeted drastically. Countries that cooperate with the United States felt the impact. As a result of the crisis, the Indonesian Stock Exchange was closed for 3 days. In addition, in 2011, Greece experienced an economic crisis that caused this country to fail so that Greece was suspected of being unable to pay its debts. This has a major effect on the worldwide stock index. This had a major effect on the stock index. This catastrophe also affected the Indonesian stock exchange. In the middle of 2011, the IHSG dropped 20.9 percent. (Fernando, 2013).

The Indonesian capital market saw strong growth in 2003, when the IHSG hit 691.89. This information occurs from the Financial Services Authority (OJK). In 2004, the IHSG was at the level of 1000.23. and continued to increase until the end of 2007, the IHSG was at the level of 2745.83. In 2008, the IHSG experienced a decline of 1355.41 due to the financial crisis. Along with the improvement of economic conditions, from 2009 to 2012 the IHSG continued to increase. This is shown through the IHSG value in 2009 which was at the level of 2534.36, then increased to 3703.51 in 2010, and to 3821.99 in 2011, then to the level of 4316.69 in 2012. Looking at the trend of the IHSG value which continued to increase from 2003 to 2012, it can be concluded that in 2003 - 2012 the IHSG was still in an undervalued position and continued to increase to approach its real value.

Capital market performance is determined by various factors that simultaneously influence capital market performance, one of which is the fundamental conditions of operating companies (Warsono, 2008). The company's fundamental factors are a performance that has been produced by the company for the operational process it carries out, which generally uses indicators based

on financial performance. Companies with good financial performance will also get a good market response. The market's response has led to an increase in the price of securities traded on the capital market. The capital market conditions will also be favorable because the companies whose shares are traded on it have strong fundamentals.

Husnan (2004) stated that fundamental factors are information related to the state of the business, the overall state of related industries, and additional elements that could impact the business's current state and future prospects. For example, such as changes in regulations set by the government. Ang (1997) stated Fundamental analysis, commonly referred to as company analysis, is essentially a historical examination of a company's financial health. The information applied is historical data that shows the financial health of a business in the past, that is employed to project the future financial condition.

Reports of financial can give data for financial specialists to be utilized in making choices related to their ventures in stock exchanging exercises on the stock trade. Financial reports published publicly by the company will help investors in making decisions to invest. Financial reports must have a number of valuable information for investors. The company's cash flow, profit and loss, balance sheet, and capital change reports are among the data and information included in the financial report. This data and information can be utilized by investors to carry out the stock valuation prepare which reflects the correlation between the degree of risk and return (anticipated return) anticipated by financial specialists. Financial reports clarify how the company is performing, from this report investors can anticipate the company's capabilities within the future. Analyzing financial reports for investors is very important, this is because investors can get the information they want.

The stock valuation process is necessary for investors. The assessment can provide relevant information from the traded stocks so that investors can determine how much return they want. Investors hope to receive dividends (profit sharing) every year and make a profit (capital gain) if they want to resell their shares. Generally, the return expected by investors on stock investments is greater than the interest rate on bank deposits. This is because investors must face greater risks compared to savings in banking. It can be deciphered that stock returns are the rate of return that investors can appreciate on the venture funds they have made.

A few thinks about on the impact of fundamental variables on stock returns have yielded changing comes about. Research conducted by Legowo (2008) expressed that EPS incorporates a positive impact on stock returns. In differentiate, Eviras (2010) analyzed that what impacts stock returns is price to book value.

This study was conducted based on the results of past studies on the impact of fundamental components on stock returns, the results obtained were still different so that further research is needed. The similarity of this study with previous studies lies in both taking financial data on the Indonesia Stock Exchange and there are variables that have been studied before and then re-examined to prove the truth of the theory. However, there are some differences

from previous studies, namely differences in company samples, number of samples, observation periods. Stock returns in this study are used as dependent variables, while ROA, ROE, PBV, EPS, PER and DER as independent variables. The observation period used in this study was in 2003 - 2012. The sample was taken from financial report data of companies listed on the Indonesia Stock Exchange.

The aforementioned background and a number of earlier investigations point to a phenomena involving discrepancies in earlier research findings. According to a study, stock returns are impacted by earnings per share, but not by price to book value (Legowo, 2008). According to other research, stock returns are impacted by price to book value (Eviras, 2009). Given these disparities in outcomes, the study's question can be framed as whether or not stock returns are positively or negatively impacted by return on equity, return on assets, price to book value, earnings per share, price-earning ratio, and debt-to-equity.

The objectives of this research include:

1. Testing whether ROA, ROE, PBV, EPS, PER and DER have a partial effect on stock returns of companies listed on the Indonesia Stock Exchange.
2. Testing whether ROA, ROE, PBV, EPS, PER and DER have a simultaneous effect on stock returns of companies listed on the Indonesia Stock Exchange.

## LITERATURE REVIEW

### *Share*

The company can issue 2 (two) shares divided into:

1. *Common stock*

Tandelilin (2010: 32) said that common stock is the ownership of a company. These shareholders do not have priority rights and the responsibilities given are also limited only to the number of shares owned. If the company's condition is bad, common stockholders do not receive dividends. If the company is liquidated, common stockholders will distribute the remaining company assets that have been reduced by the portion of preferred stockholders. Tandelilin (2010: 32) stated that in the distribution of profits, shareholders will receive dividends that are divided into:

- a. Cash dividends. Dividends paid by the company to shareholders in cash rupiah are called cash dividends.
- b. Stock dividends. In addition to cash, companies can also distribute dividends to shareholders in the form of new shares, thereby increasing the number of shares owned by shareholders.
- c. Bonus shares are new shares given to shareholders and come from the capitalization of share premium.

2. *Preferred shares*

Preferred shares have more privileges than common shareholders. These shareholders have priority rights in terms of dividend distribution. These shareholders always receive dividend distribution before common shareholders. According to Tandelilin (2010: 36) dividends on preferred shares are usually paid

in a fixed amount and do not change over time. When the company is liquidated, preferred shareholders will receive a distribution of wealth.

### ***Return***

According to Tandelilin (2010: 102) from the two components above, the total return of an investment can be calculated by adding the yield with the capital gain obtained from an investment. Yield will only be zero (0) and positive (+), while capital gain (loss) can be minus (-), zero (0), and also positive (+).

Mathematically, the total return of an investment can be formulated as follows:

$$\text{Total return} = \text{yield} + \text{capital gain (loss)}$$

Or, it can also be formulated as follows:

$$R_t = \frac{(P_t - P_{(t-1)})}{P_{(t-1)}}$$

Information :

$R_t$	= return shares in period t
$P_t$	= closing price of shares in period t
$P_{(t-1)}$	= price stock closing in period t-1

Tandelilin (2010: 10) stated that in the context of investment management, stock returns need to be distinguished between expected returns and actual or realized returns. Expected returns are the level of return desired by investors in the future. Investors who invest in a stock will expect a certain level of return that has been projected in advance. On the other hand, actual returns represent the amount of money that investors have previously received. This is the amount of return that investors will truly get. The amount of expected return and actual return that will be obtained by investors can be different. Tandelilin (2010: 10) stated that the difference between anticipated return and real return could be a risk that must be considered within the investment prepare, so that investors must constantly take the degree of risk associated with an investment into account when expanding their analysis of the level of return.

### ***Fundamental Analysis***

Fundamental analysis is an investigation related to the company's fundamental factors shown in the company's financial statements (Pancawati et al., 2001 as quoted in Savitri, 2012). The financial statements can help investors to assess the company's financial performance in order to help them in making decisions when they want to make investments. Shareholders must look in detail at the company's financial statements, especially at the amount of dividends that will be obtained later.

Investors employ fundamental analysis techniques to help them decide which company shares to buy in the long run. Fundamental analysis seeks to determine how stock prices and corporate conditions are related; in other words, stocks reflect the company's worth (Savitri, 2012). In order for investors to receive significant returns, a company's shares must also be in strong financial standing

or perform well. The value of a share is heavily influenced by the performance of the company. Fundamental analysis is an evaluation or projection of a share's value based on a variety of actual data (Darmadji and Fakrudhin, 2003 as quoted in Savitri, 2012).

### ***Return on Assets***

*Return on Asset* or ROA is the company's income after being reduced by taxes from all assets owned by the company (Maskun, 2012). The company's performance in an attempt to turn a profit is gauged by ROA. The higher the return on assets (ROA), the more profit the company makes and the more efficiently it uses its resources to increase the amount of stock returns that investors will receive.

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

### ***Return on Equity***

*Return on Equity* or ROE is a gauge of the amount of money business owners can make from the capital they put into the company (Syamsudin, 2007: 64). The ability of the business to turn a profit using its own capital can be summed up as ROE. This metric assesses a company's capacity to supply its own funds in order to reap certain advantages (Maskun, 2012).

For investors, this indicator is very important in assessing the company's future prospects. ROE is used to measure the level of profit that investors will receive when investing their funds. The greater the ROE, The higher the company's stock price, the better the company's performance will be. If the stock price continues to increase, the stock return that will be obtained will also increase.

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Owner's equity}}$$

### ***Price to Book Value***

Price to Book Value or PBV is the book value of shares used to determine the market price of shares. The book value of shares indicates the value of the company as reflected by the company's net worth. Investors must pay attention to the book value of shares before buying or selling shares, then investors must also compare the share prices offered by the company.

$$\text{PBV} = \frac{\text{Price per Share}}{\text{Book Value Per Share}}$$

### ***Earning per Share***

Earning per Share or EPS is calculated by dividing the amount of net profit that is available for distribution to shareholders by the total number of shares in the company (Tandelilin, 2010: 365). EPS is the profit per share owned, the profit obtained is generated from changes in share units in a certain period. If EPS increases, It is possible that the stock price of the company will rise as well. This is because the movement of the stock price is influenced by changes in income per share and profit per share is influenced by the income received by the company. This approach is very helpful for investors in providing information because it can describe the company's earnings prospects in the future.

$$EPS = \frac{\text{Net Profit}}{\text{Number per Share}}$$

### ***Price Earning Ratio***

*Price Earning Ratio* or PER is the ratio or comparison of corporate earnings to stock prices. Investors will figure out how frequently a stock reflects the earnings value (Tandelilin, 2010: 320). PER reflects the comparison between stock prices and company earnings. This approach is useful for investors because it can provide information on how much rupiah must be paid by investors in order to receive one rupiah of profits from the business. Hanafi (2005: 43) claims that businesses with a high growth rate are likely to have better prospects and a high PER. On the other hand, businesses with minimal growth prospects will also have low PER.

$$PER = \frac{\text{Share Price}}{\text{Earning per Share Capital}}$$

### ***Debt to Equity Ratio***

*Debt to Equity Ratio* or DER is employed to calculate the ratio of debt to equity held by shareholders. The ratio of total debt to total equity increases with a higher DER. This indicates that the greater the dependence of the company on external parties, namely creditors, thus causing a greater level of risk that will be faced by the company.

$$DER = \frac{\text{Total Debt}}{\text{Total Own Capital}}$$

### ***Technical Analysis***

Technical analysis is a technique for predicting the direction of stock price movements and other stock market indicators based on historical market data such as price and volume information (Tandelilin, 2010: 392). Technical analysis pays more attention to published data such as stock indexes, stock prices, trading volumes, and other technical factors. In technical analysis, a stock is determined by supply and demand for the stock.

Wasi (2010) stated that technical analysis has six assumptions,

that is:

- a. Supply and demand determine market pricing.
- b. A variety of rational and irrational factors influence supply and demand.
- c. Despite minor market swings, stock prices follow a consistent trend that lasts for a considerable amount of time.
- d. Supply and demand drive shifts in trends.
- e. Regardless of the cause, changes in supply and demand can be swiftly or gradually identified using trading charts.
- f. Certain patterns on charts recur.

There are several differences that can be concluded from technical analysis and fundamental analysis:

Table 1 Differences between Fundamental Analysis and Technical Analysis

No.	Variables	Fundamental	Technical
1.	Key Information	Company	Investor psychology
2.	Investor Character	Investment, Savers/Depositors funds	Traders, Institutional
3.	Investment Horizon	Term medium/long term	Short-term

Source: processed data, 2015

### **Previous Research**

Riphaniastuty (2002) conducted a study on the influence of DER, ROE, EPS, PER and DPS on stock returns of manufacturing companies before the crisis in 1994-1996. The results of the study stated that DER was not significantly positive on stock returns. While during the crisis period in 1997-1999, ROE, EPS, and PER had a large positive impact on stock returns, while DER had a big negative impact and DPS was not significant. Wasi (2010) stated that fundamental factors such as ROA, ROE, EPS, DER and beta jointly affect stock returns. However, partially, only EPS and PBV have a significant positive effect on stock returns.

Eviras (2009) analyzed that the one that influences stock returns is PBV. Stock returns are unaffected by other factors such the debt-to-equity ratio, return on assets, current ratio, growth of earnings before taxes, total asset turnover, and systematic risk (beta). Research conducted by Legowo (2008) examined the effect of ROA, ROE, EPS, PER, PBV and DER on stock returns. In this study, the results of the study found that the one that influences stock returns is EPS because it has a significant positive effect, while PBV does not have a significant effect. The variables DER, ROA and ROE were removed from the regression because there was multicollinearity and PER because it had the smallest calculated value.

This study was conducted based on the results of previous studies on the influence of fundamental factors on stock returns, the results obtained were still different so that further research is needed. The similarity of this study with previous studies lies in both taking financial data on the Indonesia Stock Exchange and there are variables that have been studied before and then re-

examined to prove the truth of the theory. However, there are several differences from previous studies, namely differences in company samples, number of samples, observation periods. Stock returns in this study are used as dependent variables, while ROA, ROE, PBV, EPS, PER and DER are independent variables. The observation period used in this study was 2003 - 2012. The sample was taken from financial report data of companies listed on the Indonesia Stock Exchange.

### ***Hypothesis Development***

#### ***The influence of Return on Assets on stock returns***

*Return on Asset* or ROA is the business's revenue after taxes are deducted from all of its assets (Maskun, 2012). The company's performance in an attempt to turn a profit is gauged by ROA.

One type of profitability statistic used to gauge a company's capacity for profit-making is return on assets. Investors find ROA data crucial since it allows them to assess a company's profitability before making an investment. The stock price of the company will rise if it can make large profits.

The bigger the return on assets (ROA), the more profit the firm makes and the more efficiently it uses its resources to increase the amount of stock returns investors will receive. On the other hand, a low return on assets (ROA) suggests that the business is unable to turn a profit and that its high debt utilization results in high interest expenses, which lowers the company's net profit.

Lioctriviany (2002), claimed that stock returns are significantly positively impacted by return on assets. From the given sentence, it may be inferred that:  
H1: return on assets has a positive effect on stock returns.

#### ***The Effect of Return on Equity on Stock Returns***

*Return on Equity* or ROE is a gauge of the amount of money business owners can make off of the capital they put into the business (Syamsudin, 2007: 64). The ability of the business to turn a profit using its own capital can be summed up as ROE. This metric assesses their capacity to contribute their own funds in order to reap certain rewards (Maskun, 2012).

For investors, this indicator is very important in assessing the company's future prospects. ROE is used to measure the level of profit that investors will receive when investing their funds. This ratio is important to note because it can determine how much the company is able to provide returns in accordance with what investors want when investing in the company. Investors consider companies that can provide a greater ROE contribution. The greater the ROE, The higher the company's stock price, the better the company's performance will be. The expected stock return will rise in tandem with the stock price if it keeps rising.

Riphaniastuty (2002), claimed that stock returns are positively impacted by return on equity. From the given sentence, it may be inferred that:  
H2: return on equity has a positive effect on stock returns.

### ***The Effect of Price to Book Value on Stock Returns***

*Price to Book Value* or PBV is the book value of shares used to determine the market price of shares. The book value of shares indicates the value of the company as reflected by the company's net worth. Investors must pay attention to the book value of shares before buying or selling shares, then investors must also compare the share prices offered by the company.

If a company has a PBV greater than 1 (one) it indicates that the company has good performance. The stock price of the corporation rises in proportion to the PBV. Since the actual return is the difference between the current and prior stock prices, a rise in the stock market price also results in an increase in the capital gain, or actual return, of the stock (Putri, 2012).

Legowo (2008) conducted a study on price to book value on the stock returns of Indonesia Stock Exchange-listed manufacturing companies. According to the study's findings, stock returns were not positively impacted by price to book value. The statement above can be concluded that:

H3: Price to book value has a negative effect on stock returns.

### ***The Influence of Earnings Per Share on Stock Returns***

*Earning per Share* or EPS is the number of firm shares divided by the net profit that is prepared for distribution to shareholders (Tandelilin, 2010: 365). EPS is the profit per share owned. The profit obtained is generated from changes in share units for a certain period. If EPS increases, there is a possibility that the company's share price will also increase. This is because the movement of the share price is influenced by changes in income per share and profit per share is influenced by the income received by the company. This approach is very helpful for investors in providing information because it can describe the company's earnings prospects in the future.

EPS is able to describe the amount of rupiah that will be obtained by common shareholders. Investors may use EPS as a metric to assess the financial success of the business. The ability of the business to make more money on each share of its stock may be reflected in high earnings per share. This can reflect the company's success in increasing investors' ability to increase the amount of capital they want to invest in a company. Investors will put more trust in companies that are able to increase greater profits on each share. This trust will have an impact on increasing demand for the company's shares.

Increased demand will cause stock prices to rise so that stock returns will also rise. Meanwhile, if the company is unable to increase profits per share, investors will not invest in the company, so that demand for a company's shares will fall and the stock price will also fall.

Legowo (2008), claimed that stock returns are significantly positively impacted by earnings per share. From the given sentence, it may be inferred that: H4: earnings per share have a positive effect on stock returns.

### ***The Influence of the Price Earning Ratio on Stock Returns***

*Price Earning Ratio* or PER is the ratio or comparison of corporate earnings to stock prices. Investors will figure out how frequently a stock reflects the worth

of earnings (Tandelilin, 2010: 320). PER reflects the comparison between stock prices and company earnings. This approach is useful for investors because it can provide information on how much rupiah must be paid by investors to obtain one rupiah of company earnings.

Hanafi (2005: 43) claimed that businesses with a high growth rate are likely to have better prospects and a high PER. On the other hand, businesses with minimal growth prospects will also have low PERs. The company's stock price rises in response to an increase in PER. This indicates that investors have a high chance of getting a large return.

Aras (2008) conducted a study on the price earning ratio in 12 developing country stock markets in 1997-2003. The findings of this study stated that the price earning ratio has a significant negative effect on stock returns. PER has the weakest power in predicting stock returns.

H5: Price earning ratio has a negative effect on stock returns.

### ***The Effect of Debt to Equity Ratio on Stock Returns***

*Debt to Equity Ratio* or DER is used to measure the level of debt to shareholders' equity. Ang (1997) claimed that the amount of company debt that is guaranteed by the company's own capital employed as a source of business funding is provided by DER. The higher the DER indicates that the greater the total debt to total equity. This indicates that the greater the dependence of the company on external parties, namely creditors, thus causing a greater level of risk that will be faced by the company. According to Ang (1997) investors tend to avoid stocks that have a high DER.

An excessively high DER has a detrimental effect on the operation of the business since higher debt levels result in higher interest costs and fewer profits; hence, the higher the DER, the lower the stock return rate for investors (Putri, 2012).

Mukherji (1997) conducted a study on debt to equity ratio on annual stock returns in Korea in 1982-1993. The findings stated that DER was positively related to stock returns. Umar (2008) also conducted a study on the effect of DER on stock returns on the Saudi Stock Exchange in 1990-2004. The researcher found the results of the study that DER had a positive effect on stock returns.

H6: debt to equity ratio has a positive effect on stock returns.

## **METHODOLOGY**

This research is an empirical study that aims to determine the effect of return on assets, return on equity, price to book value, earnings per share, price earning ratio, debt to equity ratio on stock returns of companies listed on the Indonesia Stock Exchange in 2003-2012.

The data used for this study uses secondary data or data obtained indirectly. Secondary data is data that has been processed, collected and then published for general or public consumption by agencies or institutions that process and collect the data. The shares of firms listed on the Indonesia Stock Exchange (IDX) for the years 2003-2012 were observed in order to gather this

secondary data. Bloomberg and the Indonesia Capital Market Directory (ICMD) provided the data used in this investigation.

All shares of businesses registered on the Indonesia Stock Exchange serve as the study's population. The researcher took an observation period of 10 years starting from January 2003 to December 2012, which is 730 observations (73 companies x 10 years = 730 observations).

The criteria used to select samples are:

1. Companies listed on the Indonesia Stock Exchange (IDX) during the observation period, namely January 2003 to December 2012.
2. Companies that published annual financial reports consecutively from 2003 to 2012.
3. Have a positive net income during the research period.
4. A company that is a non-financial company.
5. Have complete data related to research needs.

The research variables in this study used 6 (six) independent variables and 1 (one) dependent variable.

## RESEARCH RESULTS AND DISCUSSION

### *Descriptive Statistics*

The number of average values, middle values, maximum, minimum, standard deviation, and jarque-berra of the variables used in the study are examples of descriptive statistics that provide a basic description of the sample. The following are descriptive statistics of the various variables used in the study:

Table 2 Descriptive Statistics

Variables	Average value	Middle Value	Max.	Min.	Std. Dev	Jarque-Berra	Prob.
<i>Return on Assets</i>	0.1024	0.0811	0.5851	0.0010	0.0900	1161,648	0.0000
<i>Return on Equity</i>	0.1792	0.1427	3,2319	0.0029	0.1884	301966.0	0.0000
<i>Price to Book Value</i>	2,5111	1,4800	47,270	0.0900	4.2497	86269.36	0.0000
<i>LN_Earning per Share</i>	4,9233	4,7405	10,089	0.6931	1,7169	10,12472	0.0063
<i>LN_Price Earning Ratio</i>	2,4893	2,4410	7,0850	-0.6733	0.8517	300,8383	0.0000
<i>Debt to Equity Ratio</i>	1,0626	0.8100	8,4300	0.0600	0.9255	7366,223	0.0000
<i>Return (Annual)</i>	0.3856	0.1636	9,3623	-0.9799	0.9977	19296.14	0.0000

*Description: Transformation is done by changing the value of the price earning ratio and earning per share variables into the log form of the absolute price of the variable.*

*Source: processed data, 2015*

Table 2 explains descriptively the variables used in this study. The results of the descriptive statistical test above explain that the earning per share variable has the highest average of 4.9233, while return on assets has the lowest average of 0.1024. This illustrates that earning per share is able to measure the company's ability to generate profits per share.

**Classical Assumption Test**

**Normality Test**

To determine if the data in the sample is regularly distributed or not, the normality test is utilized. The Jarque-Berra Test is used in this study; if the probability is greater than 0.05 and the Jarque-Berra value is less than 2, the sample is considered normally distributed. (Winarno, 2011: 5.37).

Table 3 Results of Normality Test with Jarque-Berra Test

JB	Prob.	Testing Criteria	Conclusion
17942.01	0.0000	$\alpha > 2$ or $\alpha > 0.05$	Not normally distributed

Source: processed data, 2015

Based on the results above, it can be seen that the JB value is greater than 2 and the probability is below 0.05. It can be concluded that the sample used in this study was not normally distributed, due to the large amount of data used in the study. Research that uses data of more than 100 observations will cause interference that causes the data to be abnormal. Ajija et al., (2011) said that sample data of more than 100 does not need to use a normality test, because the normality test is only used if the number of observations is less than 30.

**Multicollinearity Test**

To ascertain whether the independent variables in the regression model are correlated, the multicollinearity test is utilized. A regression model can be considered good if multicollinearity is absent from it.

Table 4 Results of Multicollinearity Test of Correlation Coefficients Between Variables

Correlation Matrix						
	ROE	ROA	DER	PBV	EPS	PER
ROE	1,0000					
ROA	0.7501	1,0000				
DER	0.1688	-0.2720	1,0000			
PBV	0.7174	0.5743	0.0974	1,0000		
EPS	0.5026	0.6192	-0.1554	0.2505	1,0000	
PER	-0.1457	-0.1764	0.0289	0.2981	-0.3619	1,0000

Source: processed data, 2015

There are several ways that can be used to test multicollinearity. Researchers examined the link between independent variables in this study. It is evident from the preceding multicollinearity test findings that all of the variables'

coefficients have values less than 0.80. We can conclude that multicollinearity does not exist in the above scenario. Because if the correlation coefficient is greater than 0.80, then multicollinearity occurs (Ajija et al., 2011).

**Autocorrelation Test**

Table 5 Autocorrelation Test Results with the Durbin Watson Test

Chi-Square Prob.	Testing Criteria	Conclusion
1,9126	1.54 > α < 2.46	No autocorrelation

Source: processed data, 2015

The probability value is 1.9126 according to the autocorrelation test results using the Durbin-Watson test. Since the sample falls between 1.54 and 2.46, it is determined that there is no autocorrelation in the study. (Winarno, 2011: 5.28).

**Hypothesis Testing**

Multiple linear regression analysis was used in this work to test hypotheses. The study's sample regression results are shown in the table below.:

Table 6 Summary of Regression Results

Independent Variables	Dependent Variable = Stock Return				
	Coefficien t	Std. Error	t-count	Prob.	Sig.
Constants	-0.3735	0.2225	-1.6782	0.0937	
Return on Assets	-0.9622	0.8228	-1.1694	0.2426	
Return on Equity	0.1034	0.4235	0.2443	0.8070	
Price to Book Value	0.0367	0.0152	2,4063	0.0164	**
Earning Per Share	0.1067	0.0284	3,7516	0.0002	***
Price Earning Ratio	0.0901	0.0552	1.6326	0.1030	
Debt to Equity Ratio	-0.0027	0.0500	-0.0549	0.9562	
R-squared				0.0553	
Adj. R-squared				0.0475	
F-count				7,0603	
Probability (F-count)				0.0000	***

Description: The total research sample was 730 observations.

\*\* Significant at the 5% level.

\*\*\* Significant at the 1% level. Source: processed data, 2015

From Table 4.6 With a probability of 0.002 at the 1% level, it is evident from the foregoing that the independent variable—the earning per share

variable – has a considerable impact. Additionally, with a probability of 0.0164 at the 5% level, the price to book value variable also has a substantial impact. The f-count probability of 0.0000, however, indicates that the independent and dependent variables together have a large impact.

### *T-Test*

Each independent variable's partial impact on the dependent variable is ascertained using the t-test. Only two (two) of the six (six) independent variables had a significant partial influence, according to the regression results. The regression coefficient for the return on assets variable is -0.9622, and the t-count value is -1.1694, according to the test results. The significance value of the ROA variable is  $0.2426 > 0.05$ . The study's conclusion is that return on assets has a negative impact on stock returns and is not significant.

This finding is different from the results of research conducted by Lioctriviany (2002) which stated that return on assets has a significant positive effect on stock returns. However, Wasi (2010) stated in his research that ROA does not have a positive effect on stock returns. These results are the same as the results of research conducted by researchers. In this study, investors cannot use ROA as a measure of company performance to predict stock returns. ROA that produces a negative effect reflects that the company generates low profits due to the large use of debt so that the company's interest becomes high. This makes the profits generated low and cannot provide returns to investors.

The regression coefficient and t-value for the return on equity variable are 0.1034 and 0.2443, respectively. The significance value of the ROE variable is  $0.8070 > 0.05$ . According to this analysis, return on equity has a beneficial impact on stock returns but is not statistically significant. This finding does not support the results of research conducted by Riphaniastuty (2002) which states that return on equity has a significant positive effect on stock returns. In contrast to Hananto (2010) who carried out research on the return on equity of businesses that were part of the LQ45 index. The study's findings demonstrated that while return on equity had a beneficial impact on stock returns, it was not statistically significant. These results are consistent with the researcher's findings.

ROE is used by investors to measure how effectively and efficiently the capital used can provide profits. In this study, ROE has not been able to show a significant level of return. This could be due to the company's poor performance. For this reason, investors may decide to invest in other businesses instead. A high ROE will result from a company's strong financial success, which will raise the returns. A positive return on equity (ROE) shows that the issued capital can be invested to generate sizable profits.

The price to book value variable has a t-value of 2.4063 and a regression coefficient of 0.0367. The significance value for the PBV variable is  $0.0164 < 0.05$ . At the 5% level, price to book value significantly boosts stock returns. These findings do not support Legowo's (2008) research which conducted a study on stock returns of manufacturing businesses listed on the Indonesia Stock Exchange, based on price to book value. According to the study's findings, stock returns were not positively impacted by price to book value.

Companies that have high PBV illustrate that the company has good performance. The higher the PBV, the more it affects the company's stock price, which affects investors' interest in investing in the company so that the rate of return received by investors will increase. A significantly positive PBV can be due to the fact that this study only uses positive book value data.

The t-value for the earning per share variable is 3.7516, and the regression coefficient is 0.1067. The significance value for the EPS variable is  $0.0002 > 0.05$ . At the 1% level, earnings per share significantly boost stock returns. These results support Legowo's (2008) study, which discovered that stock returns are greatly increased by earnings per share. Lam's (2003) study on the impact of earnings per share on stock returns on the Hong Kong Stock Exchange (HKSE) in 1990 is distinct from this. According to the study's findings, stock returns were significantly impacted negatively by the earning per share variable. According to a study by Umar (2008) on earnings per share on the Saudi Stock Exchange from 1990 to 2004, stock returns were not significantly impacted by earnings per share. Mukherji (1997), who found no significant correlation between earnings per share and stock returns, supports these conclusions.

An EPS with a notable positive impact indicates that the business can make substantial earnings on each share of its stock. The demand for shares of a large company will rise if its earnings per share (EPS) attracts investors. Stock prices rise as a result, and investors receive a better rate of return.

The price-earning ratio variable has a t-value of 1.6326 and a regression coefficient of 0.0901. The significance value for the PER variable is  $0.1030 > 0.05$ . Based on the study's findings, it can be said that while the price-earning ratio has a beneficial impact on stock returns, it is not statistically significant. The research of Aras (2008), who examined the price-earning ratio in 12 developing nation stock markets between 1997 and 2003, is not supported by these findings. According to the study's findings, stock returns are significantly impacted negatively by the price-earning ratio. An insignificant PER reflects that this variable has the weakest power in predicting stock returns. This is because the company's stock price and net income often change.

The debt to equity ratio variable has a regression coefficient of -0.0027 with a t-test value of -0.0549. The DER variable has a significance value of  $0.9562 > 0.05$ . Stock returns are negatively impacted by the debt to equity ratio, which is not considerable. The researcher's conclusions contradict those of Mukherji (1997), who examined the impact of the debt to equity ratio on Korea's yearly stock returns from 1982 to 1993. The results showed a positive correlation between DER and stock performance. Additionally, Umar (2008) studied how DER affected stock returns on the Saudi Stock Exchange between 1990 and 2004 and discovered that DER had a favorable impact on stock returns. Investors gain higher stock returns when the debt to equity ratio is higher.

The findings of the researchers indicate that the higher DER is due to the existence of short-term and long-term debts that are greater than the total equity issued. This has an impact on the increasing burden of the company on creditors. Investors tend to avoid companies that have a lot of debt to external parties or

creditors. The decline in investors affects the decline in stock prices which can also result in reduced stock returns.

### ***F Test (Simultaneous)***

The influence of independent factors acting concurrently (collectively) on the dependent variable is ascertained using the F test. From Table 4.6 above, it can be observed that by using a significant level of 1%, the Probability value (F count)  $< (0.0000 < 0.01)$ . According to this, stock returns are significantly impacted by the factors return on equity, return on assets, debt to equity ratio, price-earning ratio, price-to-book value, and earnings per share all at the same time.

### ***Coefficient of Determination (R2)***

The amount of variation in the data that the regression model can account for is indicated by the coefficient of determination. The modified R2 value, as shown in Table 4.6 above, is 0.0475, or 4.75%. This indicates that return on equity, return on assets, debt to equity ratio, price-earning ratio, price-to-book value, and earnings per share only affect 4.75% of stock returns. The remaining 95.25 percent, however, can be explained by variables not covered in the study.

### ***Discussion and Implications***

Investors utilize fundamental research approaches when deciding which firm shares to purchase over the long run. Fundamental analysis seeks to determine how stock prices and corporate conditions are related; in other words, stocks reflect the company's worth (Savitri, 2012). The rise or fall of stock prices is recorded in the movement of the Indonesian index or called the composite stock price index (IHSG). IHSG is used to measure the performance of all company shares listed on the IDX. If the company's financial performance is good, then the company's shares are also good so that investors can get high returns. The decline in IHSG does not have a significant impact on companies that continue to generate high profits because investors have placed more trust in the company so that stock prices will rise and investors get high returns.

The purpose of this study is to ascertain how stock returns are impacted by return on equity, return on assets, price to book value, earnings per share, price-earning ratio, and debt-to-equity ratio. The study's findings indicate that price to book value and earnings per share are two factors that significantly boost stock returns.

This study suggests that investors should select stocks with high price to book value and earnings per share if they anticipate big returns. The test results, which demonstrate that PBV and EPS significantly increase stock returns, support this. The book value of stocks used to calculate the stock market price is known as price to book value. The stock price of the corporation rises in proportion to the PBV. so that there is a high level of interest from investors in the business and that they will receive a high rate of return.

The potential of the business to make significant profits on each share is also reflected in high earnings per share. Because it will impact the amount of

return investors will receive on their investment, this increases their confidence in businesses that can boost their earnings.

Before choosing to invest in the Indonesian capital market, investors can take into account the factors and traits of the company in this study. It is anticipated that the study's findings will help investors feel less uncertain about their investments.

## **CONCLUSIONS AND RECOMMENDATIONS**

### ***Conclusion***

This study looked at how the stock returns of businesses listed on the Indonesia Stock Exchange between 2003 and 2012 were affected by return on equity, return on assets, price to book value, earnings per share, price-earning ratio, and debt-to-equity ratio. 730 observations made up the study's entire sample of firms. Using EViews 7.0 software, the data analysis method employed the multiple linear regression method. The researcher discovered the research findings from the data analysis, thus the following may be said:

1. The partial calculation results state that the price to book value and earning per share variables have proven to have a positive and significant effect on stock returns. So that it can be used as a consideration by investors when deciding which stocks to choose. Price to book value is the book value of stocks used to determine the market price of stocks. Investors must pay attention to the book value of stocks before buying or selling stocks, then investors must also compare the stock prices offered by the company. While earning per share is able to describe the amount of rupiah that will be obtained by shareholders.
2. According to the F test, stock returns are significantly impacted by the variables return on equity, return on assets, price to book value, earnings per share, price-earning ratio, and debt-to-equity ratio all at the same time. Nevertheless, 95.25% of the criteria can still be taken into account.
3. Other variables such as return on assets, return on equity, price earning ratio and debt to equity ratio are not significant to stock returns. Therefore, investors cannot use it as information in determining the company's stock to be selected.
4. The results of this study have several differences with previous studies. This is due to differences in sample characteristics and differences in observation periods.

### ***Recommendation***

Related to some limitations in the study, the researcher provides some suggestions that can be considered by further researchers. Here are the suggestions in this study: This study is only able to prove the effect of price to book value and earning per share on stock returns. So it is expected that further researchers can add other fundamental factors as independent variables so that they can provide better research results.

## ADVANCED RESEARCH

In this study there are limitations that can be used as considerations for further researchers in order to find better results. The following are the limitations in this study:

1. This study only includes six variables, and there are several limitations used in this study, such as the data used must have a positive net income so that only 73 companies can be observed. It is hoped that further research can provide other variables whose results can be more significant to stock returns.
2. This study uses shares of companies listed on the IDX and the research period only ranges from 2003 to 2012.

Further research is expected to provide better sample criteria. Further research can use the Kompas100 index because the companies in this index have high liquidity and are stocks that have good fundamentals and performance. Further research is expected to extend the research period. Further research is expected to examine the period when the financial crisis occurred, to test the consistency of the behavior of the research variables.

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