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The Effect of Return on Assets, Net Profit Margin, and Debt to Equity Ratio on Stock Returns

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A R T I C L E I N F O

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A B S T R A C T

This study seeks to evaluate the influence of return on assets (ROA), net profit margin (NPM), and debt-to-equity ratio (DER) on the stock returns of manufacturing companies within the consumer goods sector listed on the Indonesia Stock Exchange (IDX) during the period from 2018 to 2021. The investigation encompasses a population of 74 companies within this industry, and employing purposive sampling, a total of 8 companies were chosen as the sample. The research employs a quantitative analysis, specifically adopting an associative research approach. The findings reveal that both ROA and NPM exert a significant individual impact on stock returns, whereas the DER variable does not exhibit a statistically significant influence. Moreover, when considered collectively, the three variables (ROA, NPM, DER) demonstrate a substantial combined effect on stock returns

INTRODUCTION

The capital market assumes a crucial role in propelling economic growth, functioning as a conduit for economic activities via stock investments, primarily orchestrated on the dedicated investment platform, the Indonesia Stock Exchange (IDX). Typically, companies strategically devise various approaches to enhance the value of their shares, aiming to attract investor interest. Prospective investors, prior to committing their resources, undertake a thorough analysis of the anticipated return generated by the company earmarked for investment. Return not only serves as a motivating factor for investors but also represents a reward for their willingness to undertake potentially perilous investment risks with the aim of realizing a profit, as elucidated by (Tandelilin, 2001).

Anticipated future stock returns can be forecasted based on the preceding year's stock performance. Consequently, investors are advised to conduct thorough research on their chosen stocks. This diligence is essential for investors to assess whether a particular stock aligns with their expected rate of return, as emphasized (Tarmizi et al, 2018). The elevated rate of return on stocks serves as an indicator of an industry's success, reflecting the effective management of the respective companies within that industry. This success can be gauged through a scrutiny of the company's financial statements, with key metrics such as *return on assets, net profit margin, and debt to equity ratio* providing valuable data to inform investment decision-making.

Return on Assets (ROA) is a crucial ratio that gauges a company's performance by leveraging its total assets to achieve net profit after tax. This metric holds significant importance for internal stakeholders, particularly company managers, as it facilitates an analysis of the issuer's effectiveness and efficiency in utilizing the company's overall assets. A higher ROA signifies greater effectiveness in deploying the issuer's assets, implying that, with a similar asset base, the company can generate higher profits. This observation, as stated (Nurlia & Juwari, 2019), has the potential to heighten investor interest in the company's shares. Consequently, increased investor interest can drive up the company's stock price, leading to augmented stock returns, since higher stock prices typically correlate with increased returns for investors.

In addition to *Return on Assets* (ROA), *Net Profit Margin* (NPM) serves as a valuable informational tool for investors in their decision-making process. NPM is a ratio that delineates net profit divided by sales and revenue. This metric measures the proportion of net income, reduced by taxes, in relation to sales and revenue. The correlation between net profit, adjusted for taxes, and sales and revenue underscore the internal success of the company, particularly in terms of management's ability to allocate profits to the capital owners who have invested in the company. A higher NPM ratio not only signifies more profitable performance by the issuer but also captures the attention of shareholders, potentially encouraging them to invest in the company, as highlighted (Dini and Astri Wulan, 2010).

Debt to Equity Ratio (DER) is a metric employed to assess the proportion of financial leverage covered by the company's equity, as explained (Darmaji & Fakhruddin, 2012). Enhancing the company's capacity to utilize its equity to meet

all financial obligations is crucial. This improvement enables the company to optimally secure investments that have been made, reinforcing its ability to fulfill commitments and provide assurances to investors.

Past investigations into the impact of *Return on Assets* (ROA) and Net Profit Margin (NPM) on stock returns have yielded divergent outcomes, with conflicting results apparent in different studies. For instance, a study (Izuddin, 2018), focusing on ROA variables, concluded that ROA does not exert a significant influence on stock returns. This stands in contrast to the findings of another study (Meryati, 2020). which demonstrated that the ROA variable in their research exhibited a notably positive and significant influence on stock returns.

Findings from research Arifin & Agustami (2016) and Nordiana and Budiyanto (2017) have indicated a noteworthy negative impact of the Debt-to-Equity Ratio (DER) on stock prices. However, this contradicts the conclusion drawn by Jelie et al. (2017), who asserted that the DER has a significant positive influence on stock prices. It's worth noting that such disparities might stem from variations in the years under consideration and discrepancies in the companies examined. Additionally, the research conducted by Manoppo et al. (2017) diverges from these trends, indicating that the Debt-to-Equity Ratio (DER) does not exhibit a discernible effect on stock prices.

The consumer goods industry sector represents a segment of manufacturing involved in transforming raw materials into final products for consumption or use by the broader community. Within this sector, numerous stocks offer promising investment opportunities in the capital market. However, between 2018 and 2021, companies in the consumer goods industry witnessed fluctuations in stock prices, attributed to various factors such as a decline in people's purchasing power, the depreciation of the rupiah exchange rate, and, more recently, global ramifications from the Covid-19 pandemic (Prima, 2020). Considering these circumstances, the researcher is motivated to undertake a study titled "The Influence of Return on Assets (ROA), Net Profit Margin (NPM), and Debt to Equity Ratio (DER) on Stock Returns".

LITERATURE REVIEW

Signaling Theory

The inception of the signaling theory can be traced back to Spence (1973), who proposed that signals convey information, with the issuer offering pertinent details that recipients can utilize. The recipient, upon receiving the signal, adjusts their analysis based on their interpretation of the information. Expanding on this, Brigham, and Houston (2014) assert that signaling theory adopts a shareholder's viewpoint regarding the company's potential to enhance future value. In this situation, company management communicates information to shareholders as a way of indicating the company's outlook.

The signaling theory explains the transmission of signals regarding management's success or failure to the company's owner (principal). According to this theory, such signals are intentionally communicated by management to mitigate the existence of asymmetric information. It goes on to clarify the underlying reason for companies sharing financial information with external

entities. This drive originates from the inherent information asymmetry between the company and external stakeholders. Management inherently holds superior and more immediate insights into internal information compared to external entities such as investors and creditors. Within the signaling theory framework, the act of presenting financial information to both owners and external parties is interpreted as an intentional signal indicating management's success.

The submission of an annual report by a company serves as a potential signal for both dividend trends and the trajectory of the company's stock price. When the report indicates positive performance, it functions as an affirmative signal, reflecting the company's well-being. External stakeholders respond favorably to such positive signals, given the market's strong reliance on company communications. Investors, in turn, are inclined to allocate their capital where they perceive added value. Hence, investors concentrate on evaluating the company's capabilities, particularly as portrayed in the annual profit report, before deciding where to invest.

Stock Return

The primary motivation for investors engaging in investments is the pursuit of profit, termed as return in investment parlance. Return represents the yield on invested funds, acknowledging the willingness to assume associated investment risks (Hartono, 2014). This return encompasses two components: current income and capital gain. Current income is derived from periodic payments, such as interest on deposits, bond interest, dividends, and similar sources. It is termed current income because the earnings are received in the form of cash or its equivalents, with stock dividends serving as convertible forms of cash equivalents. On the other hand, capital gain reflects the profit realized from the disparity between the selling and purchasing prices of investment tools like shares. Determining the extent of capital gains involves historical analysis of stock prices from previous periods to ascertain the anticipated return, commonly referred to as expected return.

There exist two distinct forms of returns: expected return and realized return. Expected return signifies the return anticipated by investors in the future, representing a return that is yet to materialize. Conversely, realized return pertains to the return that has already occurred. The computation of realized return relies on historical data, specifically by evaluating the difference between the current stock price and the stock price in the preceding period, divided by the stock price from that earlier period. Realized return carries considerable significance as it serves as a fundamental metric for establishing expected returns and assessing potential future risks. The present research utilizes the realization of returns through the following formula.

$$Rit = (Pit - Pit\text{-}1) / (Pit - 1)$$

Description:
Rit : Stock return
Pit : Stock price observation period
Pit-1 :Stock price period prior to the observation

Financial Ratio Analysis

A ratio serves as a tool for comparing different quantities, facilitating a comprehensive assessment to uncover answers that can be utilized for analysis and decision-making. When evaluating a company's performance, investors commonly focus on both the company's prospects and its financial statements. Financial ratio analysis emerges as a prevalent method for dissecting financial statements. In gauging a company's effectiveness in generating profits from its assets, Return on Assets (ROA) stands out as a crucial measuring tool. Net Profit Margin (NPM) is another key ratio, employed to assess the net outcome of each unit of revenue generated by the company within a specific timeframe. The Debt-to-Equity Ratio (DER) is yet another ratio, offering insights into the extent to which liabilities can be covered by the equity owned. The measurement of these ratios, as outlined by Pambudi M. Fikri (2021) and Darmaji & Fakhruddin (2012), is detailed as follows.

ROA = Net Profit After Tax / Total Assets

NPM = Net Profit After Tax /Net Sales

DER = Total Liabilities/Total Equity

Research Conceptual Framework

Drawing from the earlier elucidation, the author endeavored to scrutinize the impact of *Return on Assets* (ROA), *Net Profit Margin* (NPM), and *Debt to Equity Ratio* (DER) on Stock Return within companies and entities operating in the consumer goods industry sector. The analysis encompassed the period from 2018 to 2021, focusing on entities listed on the Indonesia Stock Exchange. The conceptual framework encapsulating this perspective is succinctly depicted in the subsequent chart:

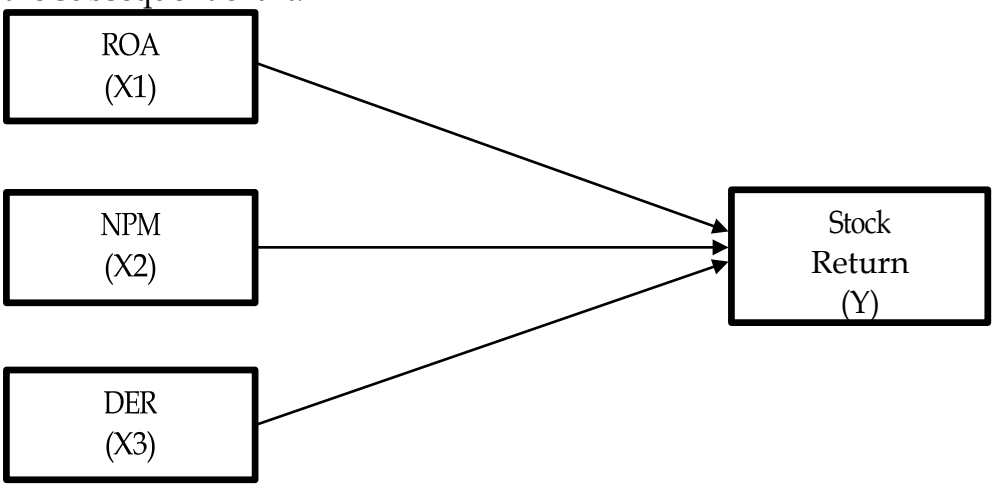

Figure 1. Shells of Thought

Hypothesis

Drawing upon theoretical foundations, prior research findings, and the elucidated issues, this study can formulate hypotheses:

H_1: Return On Asset (ROA) affects Stock Return. H_2: Net Profit Margin (NPM) affects Stock Return. H_3: Debt of equity ratio (DER) affects Stock Return.

METHODOLOGY

Types of Research

This research employs a quantitative methodology, specifically embracing an associative research type. The data utilized are of a secondary nature, sourced from the annual reports of manufacturing companies within the consumer goods industry sector listed on the official website of the Indonesia Stock Exchange (www.idx.co.id) for the years 2018 to 2021. Purposive sampling techniques are applied for the selection of the sample. The data analysis comprises an initial stage of content analysis, followed by panel data regression tests. These tests are executed using the EViews 12 application to extract meaningful insights from the data.

Population and Sample

The study encompasses the entire population of manufacturing companies within the consumer goods industry sector that are listed on the Indonesia Stock Exchange and have published their information. This population comprises a total of 74 companies. The sample selection employs purposive sampling techniques, guided by specific criteria, which include: [Provide details on the specific criteria used for sample selection]:

1. A manufacturing firm operating within the consumer goods industry sector, which has been listed on the Indonesia Stock Exchange (IDX) during the period spanning from 2018 to 2021.
2. A manufacturing company in the consumer goods industry sector that publishes *annual repor*t on the company's official website for 2018-2021.
3. Have complete data related to ROA, NPM and DER in the *annual report* with percentage units in the 2018-2021 period.

Based on the sample selection criteria above, 8 companies were obtained that were able to meet the research criteria, namely:

Table 1. Company Sample

No.	Stock Code	Company Name
1.	UNVR	PT Unilever Indonesia Tbk
2.	MYOR	PT Mayora Indah Tbk
3.	GGRM	PT Gudang Garam Tbk
4.	HMSP	PT Hanjaya Mandala Sampoerna
5.	BREAD	PT Nippon Indosari Corporindo
6.	NDF	PT Indofood Sukses Makmur Tbk

7.	ICBP	PT Indofood CBP Sukses Makmur Tbk
8.	ACES	PT Hardware Indonesia

Source: Indonesia Stock Exchange , 2022

Data Types and Sources

This study relies on quantitative data, specifically numerical information extracted from financial statements, such as annual reports. The data sources for this research are primarily secondary, drawn from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of individual companies. Secondary data refers to evidence, records, or historical reports available in archives, comprising both published and unpublished documentary data, as defined by Indriantoro and Supomo (2012).

Data Collection Techniques

The author utilized a documentation approach for data collection, which involved acquiring all relevant documents from both the Indonesia Stock Exchange (IDX) and company websites. This technique encompasses the thorough compilation of documents that are directly pertinent to the data requirements of the research. The documents obtained through this documentation approach are specifically related to the companies scrutinized in the research.

Data Analysis Techniques

The data analysis in this study comprises two distinct stages. Initially, content analysis is employed, followed by panel data regression tests conducted using the EViews 12 application. Content analysis, as described by Ningsih and Cheisviyanny (2019), is a research technique designed to identify specific words or concepts within a text or a collection of texts. In the context of this study, content analysis is focused on Return on Assets (ROA), Net Profit Margin (NPM), and Debt-to-Equity Ratio (DER), and it is applied to the annual reports of the sampled companies. Subsequently, panel data regression tests are executed, and this analytical phase is facilitated with the assistance of the EViews 12 application.

RESULTS AND DISCUSSIONS

Following a thorough content analysis of the annual reports of the company, significant findings have emerged. In terms of Return on Assets (ROA), PT Unilever Indonesia Tbk reported the highest value at 47.4%, while PT Nippon Indosari Corporindo recorded the lowest at 2.89%. Shifting to Net Profit Margin (NPM), PT Unilever Indonesia Tbk achieved the highest value of 21.8%, whereas PT Gudang Garam Tbk exhibited the lowest at 5.8%. Regarding Debt-to-Equity Ratio (DER), PT Mayora Indah Tbk displayed the highest value at 52.3%, with PT Hardware Indonesia recording the lowest at 0.9%. In terms of stock returns, PT Hardware Indonesia showed the highest value at 38.9%, while PT Hanjaya Mandala Sampoerna registered the lowest at -0.3%. Subsequent to data collection, the analysis progresses to panel data regression tests, aimed at deriving insights that can effectively address the research questions. The ensuing analysis seeks to ascertain the impact of ROA, NPM, and DER on stock returns within the consumer goods industry sector.

Normality Test

Normality tests can also be performed to show that the data of each sample of each variable has been distributed normally or not. The results of the normality test in this study can be seen as follows:

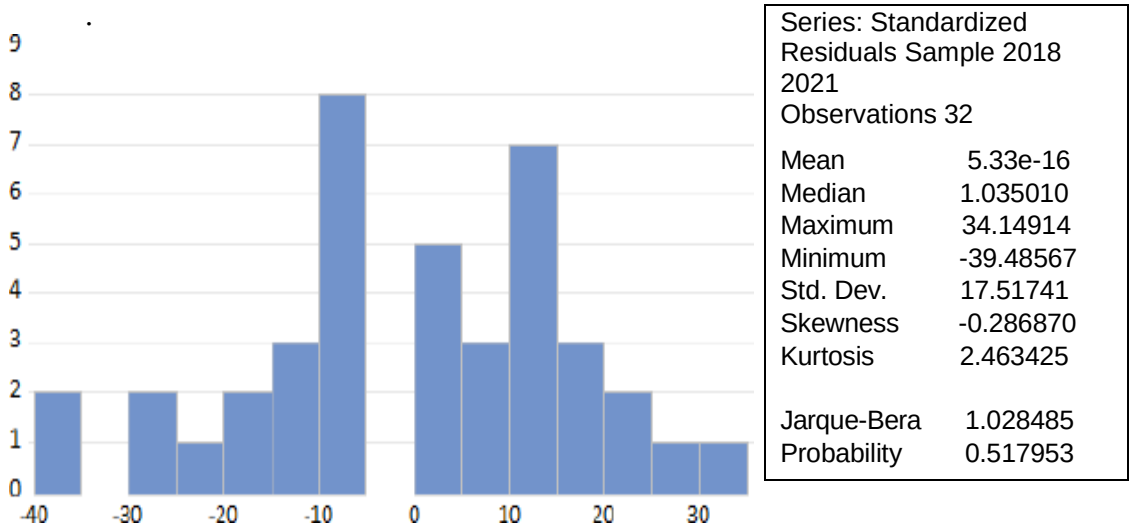

Figure 2. Result Test Normality

Based on the normality test, a probability value of 0.51 is obtained, meaning that the probability value 0.51 > 0.05 It can be concluded that the probility value is normal distribution.

Multicollinearity Test

The multiclonality test is used to show whether there is a correlation problem between variables in the regression model used in the study. The results are:

Table 2. Multicollinearity Test Results

	X1	X2	X3
X1	0.532725	1.000000	-0.334334
X2	1.000000	0.532725	-0.204968
X3	-0.204968	-0.334334	1.000000

The multicollinearity test conducted earlier yielded a correlation value of less than 0.90. This outcome leads to the conclusion that there is no multicollinearity issue in this study. With this confirmation, the analysis can proceed to the selection of panel data regression models.

Panel Data Regression Model Selection

Table 3 Chow Test Results

Effects Test	Statistics	d.f.	Prob.
Cross-section F	4.243833	(7,28)	0.0026
Cross-section Chi-square	28.926841	7	0.0001

Source: Data processing , 2022

The outcomes of the Chow test presented in the above table reveal that the probability value of cross-section F is 0.0026, which is less than the significance level of 0.05. Consequently, it can be inferred that H0 is accepted while H1 is rejected. This indicates that the most suitable panel data regression model for this study is the Fixed Effect Model (FEM).

Table 4 Hausman Results

Test Summary	Chi-sq. Statistics	Chi-sq. d.f.	Prob.
Cross-section random	19.137387	4	0.0007

Source: Data processing , 2022

The results of the hausman test in the table above show that the *probability* value of *random cross section* is 0.0007 < a significance level of 0.05 so that it can be concluded that H 0 is rejected and H 1 accepted, which means that a good panel data regression model for this study is *the Fixed Effect Model* (FEM).

Unlucky Par Test (T Test)

In this examination, the T-test is deployed to assess the significant impact of each independent variable on the dependent variable. The ensuing table displays the results of the T-test:

Table 5 Statistical Test Results with Fixed Effect Model

Nama Variable	t-table	t-count	Probability	Information
ROA (X1)	2,02108	1,248848	0,0297	Accepted
NPM (X2)	2,02108	2,229971	0,0488	Accepted
DER (X3)	2,02108	-0,334314	0,1843	Rejected

Source: Data processing , 2022

The tests carried out above, it shows that the Statistical Test uses *the Fixed Effect Model* (FEM) It was found that :

1. The probability value of the Return *On Asset* (ROA) variable is 0.0297 < 0.05, which means that the ROA variable has a positive and significant effect on the return of shares in *the* consumer goods industry sector.
2. The probability value of the *Net Profit Margin* (NPM) variable is 0.0488 < 0.05, which means that the NPM variable has a positive and significant effect on the return of shares in the consumer goods industry sector.
3. The probability value of the *Debt to Equity Ratio* (DER) variable is 0.1843 > 0.05, which means that the DER variable does not have a significant effect on the return of shares in the consumer goods industry sector.

Simultaneous Test (Test f)

In this test, the F test is used to determine together the effect of the independent variable on the bound variable. The results of the f test are presented in the following table:

Table 6. Simultaneous Regression Test Results

F count	F table	Probability
2,898864	4,08	0,011228

Source: Data processing , 2022

Based on the table above, it is known that the value of Statistical Probability F is 0.011228 < 0.05. Therefore, it can be deduced that the variables Return On Asset (ROA), Net Profit Margin (NPM), and Debt to Equity Ratio (DER) exert a noteworthy impact on the variable Return of Shares in manufacturing companies within the consumer goods industry sector.

Coefficient of Determination (R2)

The Effect Model (FEM) test gave the following results: coefficient of determination (R-squared) of 51.78% or 0.517813. that the dependent variable Stock Return received a contribution of 51.78% from the independent variables, namely ROA, NPM and DER; other variables influence the remaining 100% (or 48.22%)**.**

The Effect of ROA on Stock Return in the Consumer Goods Industry Sector for the 2018-2021 Period

The analysis conducted using the Fixed Effect Model (FEM) indicates that the variable Return on Assets (ROA) exerts a positive and significant influence on stock returns within the consumer goods industry sector. This suggests that companies in this sector with higher ROA values tend to achieve better stock returns. A company's ability to generate substantial profits by effectively utilizing its assets becomes an attractive factor for investors. As more investors are drawn to invest in such a company, the demand for its stock increases, subsequently driving up the stock price and, in turn, enhancing the overall stock returns for the company.

The Impact of Net Profit Margin (NPM) on Stock Returns in the Consumer Goods Industry Sector during the Period from 2018 to 2021.

The test outcomes reveal that the Net Profit Margin (NPM) variable wields a positive and significant influence on stock returns within the consumer goods industry sector. This suggests that with an escalating Net Profit Margin (NPM) value, there is a corresponding increase in stock returns, signifying the company's ability to generate significant net income. Such exemplary performance is expected to draw the interest of investors seeking to invest in companies within the consumer goods industry sector from 2018 to 2021. This fosters confidence that the company holds promising prospects, potentially leading to increased returns in the future. A higher NPM value is anticipated to contribute to a rise in stock returns, thereby benefiting shareholders.

The Effect of DER on Stock Return in the Consumer Goods Industry Sector for the 2018-2021 Period

The examination results indicate that the Debt-to-Equity Ratio (DER) variable does not yield a significant impact on stock returns. This suggests that the fluctuations in DER, whether high or low, do not play a decisive role in influencing the returns on shares for companies within the consumer goods industry sector. Despite the common practice among investors to assess a company's ability to cover operating expenses through the DER ratio, this metric does not exhibit a discernible influence on stock returns in the consumer goods industry sector during the specified period.

The Effect of ROA, NPM and DER on Stock Return in the Consumer Goods Industry Sector for the 2018-2021 Period

Based on the results of the statistical analysis carried out, it is known that the independent variables show a simultaneous influence on stock returns when tested in groups using the F test. That stakeholders and investors believe that studying the combined impact of financial ratios such as return on assets, margin net income, and debt to equity ratio stock returns in the consumer goods industrial sector are best done by evaluating both simultaneously.

CONCLUSION AND RECCOMENDATIONS

Several conclusions have been made afterwards from data analysis and discussion regarding the influence of Return on Assets, Net Profit Margin, and Debt to Equity Ratio on Stock Returns in Manufacturing Companies in the Industrial Sector from Consumption Listed on the Indonesian Stock Exchange (BEI) for the 2018–2021 period. Data analysis and discussion of the influence of Return on Assets, Net Profit Margin, and Debt to Equity Ratio on Stock Returns in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange (BEI) for the 2018–2021 period:

1. *Return On Asset* (ROA) partially has a significant influence on Stock Return
2. *Profit* Margin (NPM) partially has a significant effect on Stock Return.
3. *Debt to Equity Ratio* (DER) partially does not have a significant effect on Stock Return.

4. *Return On Asset (*ROA), *Net Profit Margin* (NPM) and *Debt to Equity Ratio* (DER) simultaneously have a significant influence on Stock Return.

Companies engaged in manufacturing, specifically those operating within the consumer goods industry sector, are advised to assess their financial ratios, specifically focusing on *return on assets* (ROA), *net profit margin* (NPM), and *debt to equity ratio* (DER). This scrutiny is crucial due to the significant correlation these ratios have with stock returns, making them vital considerations for investors and potential investors in the decision-making process. Moreover, investors are encouraged to adopt a more discerning approach, incorporating both fundamental and technical analysis, to enhance their analytical capabilities in investment decisions.

A notable constraint of this research lies in its utilization of merely three independent variables to assess their influence on stock returns. Future investigators are strongly urged to broaden their research scope by introducing additional elements or factors as independent variables in their examinations. Furthermore, it is advisable to incorporate a larger population and extend the study period to enhance the comprehensiveness of the analysis.

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