PSYCHOLOGY AND EDUCATION (2021) ISSN: 0033-3077 Volume: 58(3): Pages: 434-439
Article Received: 13th September, 2020; Article Revised: 25th January, 2021; Article Accepted: 12th February, 2021

The Influence of Company Growth and Company Value on Stock Returns

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ABSTRACT

This study aims to determine that stock returns can be influenced by company growth with the proxy of market to book value ratio and company value as proxied by price earnings ratio in Property, Real Estate and Building Construction Companies Listed on the Indonesia Stock Exchange for the 2016-2018 period. Company growth and firm value are independent variables, while stock return is the dependent variable. The sampling technique used in this study is non-probability sampling with purposive sampling method. This study uses panel data regression analysis method with a significance level of 5%. The program used in analyzing the data uses e-views 10. The results show that company growth and firm value have a positive effect on stock returns.

Keywords
Stock returns, company growth, company value

Introduction

The trend in stock price movements will result in a decline in the shares return trend of several entities listed on the Indonesian stock exchange from 2013 to 2018. There has been a downward trend in stock returns for several property and real estate sector companies successively from period to period. It is known that 13 companies experienced a downward trend in stock prices which resulted in a decline in stock returns from 2015, 2016 and 2017 with an average value of 1,300, 1,026, and 781. Finally, in 2018 it also decreased with an average value of 517. This shows a separate problem for company performance.

According to Halim (2015), a good profit will result in an increase in shares prices, so the stock returns will also increase, because it follows the ups and downs of dividends paid to shareholders. The theory above contradicts the facts on the ground. Several property and real estate companies in Indonesia have experienced a phenomenon where the company's stock returns fall when net income increases or vice versa.

The ability of a company to maintain its economic position in the middle of the economy and its business sector is called the growth ratio according to Kasmir (2017). Market to book value is used as an indicator to measure company growth. Market to book value is a ratio that shows a market assessment of the financial condition achieved by the company or to measure management's ability to create market value above the investment value (Wiagustini, 2010).

Husnan and Pudjiastuti (2015) show that the market value ratio measures how the capital market (investors) value a company. Price Earning Ratio (PER) is used to measure the ratio of market value. PER is the ratio between the market price per share (MPS) and earnings per share (EPS). According to Fahmi (2018), increasing PER will increase the expected profit that an investor will pay attention to. This is what an investor will pay attention to. Stock returns are considered the higher by investors on earnings per share if the PER is higher. It can be concluded that a high PER will result in an increase in stock returns (Dewi, 2016).

Based on the background above, the theme of this study is "The movement of stock returns is thought to be influenced by company growth and firm value as proxied by the price earnings ratio."

Literature Review

Stock returns are the benefits that investors get from their stock investment policies (Fahmi, 2018). Stock returns are defined as the results obtained from stock investments (Hartono, 2017).

The market value ratio measures how the capital market (investors) value a company (Husnan & Pudjiastuti, 2015). This ratio shows how the market responds to the company (Anwar, 2019). This ratio is able to provide an understanding for the management of the company on the conditions of implementation to be implemented and its impact in the future (Fahmi, 2018). The ratio used in this study is the PER.

PER is a comparison between MPS and EPS. For investors, the higher the Price Earning Ratio, the expected profit growth will also increase (Fahmi, 2018). The higher the Price Earnings Ratio number, it means the stock price is more expensive and investor confidence in stocks is getting higher (Anwar, 2019).

Research on company growth has been widely researched, such as Permatasari and Kusumah (2017), Anwar (2019) and others. Companies with high growth rates from year to year are more likely to get high bond ratings compared to companies with low company growth rates because companies with high growth are more attractive to investors. The company growth ratio used in this study is Market to Book Value (MBV). MBV is the ratio that shows a market assessment of the financial condition achieved by the company or to measure management's ability to create market value above the investment value (Wiagustini, 2010).

Price Earning Ratio (PER) compares the share price per share (which is determined in the capital market) with earnings per share (EPS) (Husnan & Pudjiastuti, 2015). PER is useful for seeing how the market appreciates the value of a company's shares against the company's performance as reflected by its EPS (Ang, 1997). The higher the PER, the higher the share price is considered by investors to the earnings per share. It can be concluded that a high PER will cause stock returns to rise (Dewi, 2016).

Research on PER and stock returns has been conducted by Bachtiar (2017), Kaesari, et al. (2020), Kusumah et al. (2020), Desi Ika and Listiorini (2017), Sinaga (2019), Permatasari and Kusumah (2017), Andansari et al. (2016), Ni Nyoman and Luh (2019).

The hypothesis is as follows:

Hypothesis 1: Company growth has a positive effect on shares returns.
Hypothesis 2: Firm value has a positive effect on shares returns

Methodology

The explanatory used in this research. Explanatory is intended to explain the associative relationship between the objects under study. Explanatory studies are research aimed at describing the relationship, its effect between predictive or predictor variables on predicted or commonly stated causal and effect variables (Edison, 2018).

Secondary data is the type of data used. Secondary data collected comes from reports that have been published or have been published by institutions, organizations, companies such as: annual reports, documents, government publications, industry analysis, mass media, websites, internet, etc. (Edison, 2018).

The research population is a collection of individuals who have the same characteristics that serve as a source of research information (Edison, 2018). Population is the total collection of elements from which the collection will be made to conclusions (Nuryaman & Christina, 2015). The population in this study were 71 companies.

Sampling based on purposive sampling technique was carried out based on assumptions and criteria that illustrate that the research population is specific and population characteristics and criteria are based on the provisions of an institution (Edison, 2018) so that 19 companies were obtained.

Panel data analysis as an analysis model is a combination of time series data and cross section data (Basuki & Pratowo, 2017). Time series data namely data based on observations made at different times and cross section data are data collected at a certain time (Ghozali & Ratmono, 2013). The data collected is processed using data processing e-views 10.

Results and Discussion

Analysis of Company Growth Variable Description

The growth of companies with Market to Book Value (MBV) proxies which became a fluctuating sample of research, which above average there were 6 companies namely BSDE, ADHI, PTPP, PPRO, SMRA, and WSKT. Meanwhile, companies that are below the average are APLN, DILD, MDLN, DART, SSIA, GWSA, and WSKT companies.

Analysis of Variable Description of Firm Value as proxied by Price Earnings Ratio

The development of the average PER value from 2016-2018. In 2016 the average PER value was 13.47, in 2017 there was an increase to 14.42 and increased again in 2018 to 16.52. If the number of companies with growth prospects above the mean is greater than the number of companies with growth prospects below the mean, it can be said that the companies have a pretty good condition. In this study, that had a mean above the average in 2016 were 10 companies or 52%, while those with a mean below the average were 9 companies or 47%, meaning that in 2016 the condition of the company can be said to be quite good. In 2017, 8 companies or 42% had a mean above the average, 11 companies or 58% had a mean below the average and in 2018 3 companies or 16 % had a mean above the average. While those with a mean below the average were 16 companies or 84%, meaning that in 2017 and 2018 the condition of the company could be said to be poor because it experienced an increase in companies experiencing prospects below the mean.

Analysis of Variable Description of Stock Returns Analysis

The decline in the average value of stock returns from 2016-2018 shows that the stock prices of most companies tend to decline. In 2016, the average value of stock returns was 1.86, in 2017 it decreased to 0.00 and decreased again in 2018 to -0.11. The companies with a mean above the average in 2016 were 2 companies or 10%, while those with a mean below the average were 17 companies or 90%. In 2017, 8 companies or 42% had a mean above the average, 11 companies or 58% had a mean below the average and in 2018 9 companies or 47 companies had a mean above the average. %, while those with a mean below the average were 10 companies or 53%.

The maximum value of stock returns in 2016 is owned by the company Intiland Development Tbk amounting to 27.69. In 2017, the maximum value owned by Bekasi Asri Pemula Tbk was 0.76 and in 2018 the maximum value owned by Suryamas Dutamakmur Tbk was 0.30. Meanwhile, the minimum value of stock returns in 2016 is owned by Nusa Raya Cipta Tbk of -0.47. In 2017, it was owned by PP Properti Tbk company amounting to -0.44. In 2018, it was owned by the company Lippo Cikarang Tbk amounting to -0.53.

The standard deviation value in 2016 was 6.45, which means that in the average, maximum, and minimum values there is a potential deviation of 6.45%. In 2017 it was 0.32% and in 2018 it was 0.21%.

The Effect of Company Growth, Firm Value on Stock Returns

The effect of company growth on stock returns

Companies with high growth rates from year to year are more likely to get high bond ratings compared to companies with low company growth rates because companies with high growth are more attractive to investors. MBV is the ratio that shows a market assessment of the financial condition achieved by the company or to measure management's ability to create market value above the investment value (Wiagustini, 2010). In general, a good company growth will increase a good stock return, so investors in choosing an investment in stocks will see the effect of company growth. The t-count value obtained by the company's growth is 2.669029 with $\alpha = 0.05$, for a two-way test, the t table value is ± 2.03693. From these values, it can be seen that the tcount value obtained is 2.669029 and sig 0.0118. In accordance with the test criteria that Ho is rejected, it means that stock returns are influenced positively by company growth.

Good growth of the company will increase stock returns, so investors in choosing an investment in stocks will see the effect of company growth. According to Kasmir (2017), company growth ratio is describing ability of a company's to maintain the economic position amidst economic growth and its business sector.

The effect of firm value on stock returns

The results of the t test on the Price Earning Ratio (PER) variable show that stock returns are positively influenced by the PER variable. The results of the t test on the regression model, obtained the significance of the Return on Equity variable of 0.0389 <0.05 (significant level of significance), with a positive coefficient. This means that when PER increases, stock returns will increase. Vice versa, when PER decreases, the stock return will decline. This study shows that stock returns are significantly positively influenced by the PER variable, the higher the PER, the higher the stock returns that investors will receive.

Investors pay attention to PER in making investment decisions. Companies touched 85.66 which according to investors this figure is too high. From an investor's point of view, a PER that is too high may not be attractive because stock prices will probably not go up again, which means that the possibility of obtaining capital gains will be smaller (Hanafi & Halim, 2016). Devi and Artini (2019) who say that investors view PER which is too high reflects the company's stock price which is too expensive, thus reducing the purchasing power of investors. A decrease in the purchasing power of investors will have an impact on decreasing demand for shares. Stock prices will decline and have an effect on decreasing stock returns.

Conclusion

Conclusion

The conclusions produced in this study:

1. Stock return is significantly influenced positively by the company growth proxied by MBV, the stock return will be higher if the company growth is higher.
2. Market value is proxied by price earnings ratio which can influence stock returns in a significant positive manner. So, the higher the stock return is due to an increase in the price earnings ratio.

Suggestions

1. For the Development of Financial Accounting Science

A. For the Academic World

B. It can be used as a valuable input in studying theories and adding or complementing existing financial accounting theories, which are related to company growth and firm value, and stock returns.

C. For Next Research

This study has several limitations, including the relatively insufficient number of samples tested, it has not revealed all variables that can affect stock returns. In order to develop a research building block, the next researcher can:

- Increase or expand the number of samples tested.
- Further research by selecting other researchable variables that can affect stock returns.

2. Operational Advice

A. For Investors

Investors can consider the company's growth factor and company value, which is proxied by the price earning ratio as information that can be taken for making decisions to invest. In addition, investors can consider other factors that can affect shares or stock returns.

B. For Further Researchers

The observation period is expected to use the most recent research period with a large sample size in order to describe the overall condition.

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