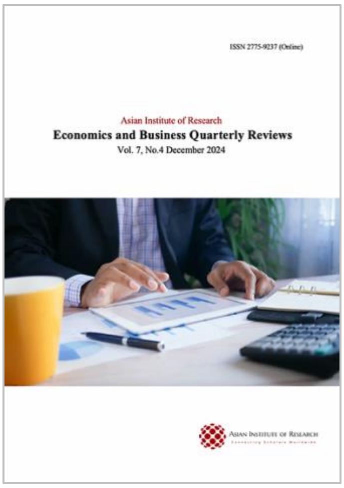

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The Role Mediating of Debt Policy on the Relationship of Profitability and Stock Return: Evidence from Indonesia

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Abstract
The purpose of this research is to discover the effect of profitability (ROA, ROE, and EPS) and debt policy (DER) on Stock Returns in Cosmetics and Household Goods Sub-Sector Companies Registered on the Indonesia Stock Exchange (IDX) for the period 2017-2021. This study uses secondary data, meaning that the data collected for the purpose of samples were downloaded data from the official website of the Indonesia Stock Exchange. The sampling technique used was the purposive sampling method. The research sample consisted of 6 manufacturing companies. Data analysis was done by testing the hypothesis either partially or simultaneously. The analytical method used is panel data regression analysis with a significant level of 5%. Based on the results of the research, partially ROA and ROE have a positive and significant effect on stock returns. At the same time, EPS and DER have a positive but not significant effect on stock returns. The results of the study simultaneously show that ROA, ROE, EPS, and DER affect stock returns.

Keywords: Profitability, ROA, ROE, EPS, Debt Policy, DER, Return

1. Introduction

The concept of return is the level of profit enjoyed by investors on an investment made (Putra & Kindangen, 2016). Return is very important for investors because return is the expectation of future profits, which means compensation for the time and risk associated with the investment made by investors. The level of demand and supply from investors will affect the high and low price of the company's shares. If the stock price is high, the return that investors will obtain is also high (Devi & Artini, 2019). In this study, the cosmetics and household goods sub-sector was used as the object of research. Because the condition of stock returns in cosmetics and household goods sub-sector companies fluctuates.

Several factors can affect stock returns, namely return on assets, return on equity, earnings per share, and debt-to-equity ratio. The first factor is the return on assets (ROA). The results of research (Chritianto & Firnanti, 2019) state that return on assets has no effect on stock returns. Meanwhile, the results of research conducted by (Gilang Gunadi et al., 2015) state different results, namely, return on assets has a significant effect on stock returns, where the higher the return on assets value, the higher the profit generated by the company. The following is a graph of the average development of Return on Asset (ROA) in the Cosmetics and Household Goods Sub-Sector for the 2017-2021 Period.

The second factor is the return on equity (ROE). Based on the results of research conducted by (Devi & Artini, 2019), it states that return on equity has a positive and significant effect on stock returns. According to him, the positive relationship between ROE and stock returns shows that when ROE increases, stock returns also increase. Meanwhile, according to research conducted by (Aisah & Mandala, 2016) states that ROE has no effect on stock returns, where high or low return on equity does not affect investors to invest. Because if the company is able to manage capital well, it will get profit.

The third factor is earnings per share (EPS). Aryaningsih et al. (2018) state that earning per share partially has no positive and insignificant effect on stock returns. Meanwhile, research (Almira & Wiagustini, 2020) shows the results that earning per share has a positive and significant effect on stock returns. According to him, the higher the earnings per share (EPS) value, the more investors will be interested in investing their capital so that it can increase the stock price.

The fourth factor is the debt-to-equity ratio (DER). The results of the research (Nurmasari, 2017) state that the debt-to-equity ratio has no significant effect on stock returns. According to him, the higher the debt-to-equity ratio value, the higher the stock return value, and vice versa. Meanwhile, research conducted by (Devi & Artini, 2019) states that the debt-to-equity ratio (DER) has a negative effect on stock returns. This shows that if the DER value increases, the stock return value will decrease.

2. Literature Review

Previous research contributes to taking research titles and drawing hypotheses. The variables contained in this study were taken from one of the previous studies, such as the variable return on assets was taken based on the results of research conducted by (Safira & Budiharjo, 2021), (Aryaningsih et al., 2018), (Fakhri Rana Sausan et al., 2020), (Mudzakar & Intan Pramudya Wardanny, 2021), and (Ratih & Candradewi, 2020), (Siti Aminah, 2021) variable return on equity from research (Lubis & Alfiyah, 2021), (Adawiyah & Setiyawati, 2019), (Caesar Yudhan Shia et al., 2021), and (Mauli Caroline, 2021), 2021), and (Mauli Caroline, 2020), then the earning per share variable from research (Almira & Wiagustini, 2020), (Sodikin & Wuldani, 2016), (Priyanto, 2020), (Sri Martina et al., 2019), and (Dwi, 2019), 2019), and (Dwi, 2019), as well as the debt to equity ratio variable based on the results of research (Gilang Gunadi et al., 2015), (Avishadewi & Sulastiningsih, 2021), (Devi & Artini, 2019), (Hasanudin et al., 2020), and (Marito & Sjarif, 2020).

3. Hypothesis

This study was conducted to determine the return on assets, return on equity, earnings per share, and debt-to-equity ratio on stock returns. Based on the theoretical basis, previous research, and framework of thought, the hypotheses proposed in this study are as follows:

3.1. Effect of Return on Asset on Stock Return

(Aryaningsih et al., 2018) It states that return on assets significantly has a positive effect on stock returns. In line with this statement, the results of research conducted by Safira & Budiharjo (2021) also show that return on assets has a significant effect on stock returns. This explains that the higher the ROA, the higher the possibility of the next stock return.

However, this is different from the findings (Fakhri Rana Sausan et al., 2020), which state that the return on assets partially does not affect stock returns. An increase in ROA does not guarantee that the economic condition of a company is in good condition. This shows that a fluctuating return on assets (ROA) does not have the potential to attract investors to invest. From this study, it can be concluded that return on assets (ROA) cannot be used as a basis for determining stock returns. So from the description above, the hypothesis made is as follows:
H1: Return on assets has a positive and significant effect on stock returns.

3.2. The Effect of Return on Equity on Stock Returns

(Lubis & Alfiyah, 2021) shows that partial return on equity (ROE) has a significant effect on stock returns. In line with this research, (Adawiyah & Setiyawati, 2019) also stated that return on equity (ROE) has a positive and significant effect on stock returns. The higher ROE means that the company's performance in managing its capital to generate profits for shareholders is getting better. With increasing net income, the ROE value will increase so that investors are interested in investing. Meanwhile, (Caesar Yudhan Shia et al., 2021) found that return on equity (ROE) has a positive but insignificant effect on stock returns. The size or size of the return on equity value depends on the company's increasing profits or decreasing equity. So, a high or low return on equity does not affect investors to invest. However, it is different from (Mauli Caroline, 2020), which states that return on equity (ROE) has no significant effect on stock returns.
H2: Return on equity has a positive and significant effect on stock returns.

3.3. The Effect of Earning Per Share on Stock Returns

(Sodikin & Wuldani, 2016) shows that earning per share (EPS) simultaneously has a significant effect on stock returns. According to him, earnings per share (EPS) can be used as an indicator by investors to determine the amount of return that will be obtained, both short-term return and long-term return. In line with this research, (Almira & Wiagustini, 2020) stated that earning per share (EPS) has a significant positive effect on stock returns. Earning per share (EPS) is the level of profit obtained by investors per share they own. The higher the EPS value, the higher the profit level per share it has. With the increase in earning per share (EPS), it can attract investors to invest so that the stock price increases. In contrast (Priyanto, 2020), shows that earning per share (EPS) partially has no significant effect on stock returns.
H3: Earning Per Share has a positive and significant effect on stock returns.

3.4. Effect of Debt to Equity Ratio on Stock Return

(Avishadewi & Sulastiningsih, 2021) state that the debt-to-equity ratio (DER) has a positive and significant effect on stock returns. If the debt-to-equity ratio (DER) increases, the stock return will increase. According to him, the company needs additional capital for its operational activities because the company's funds are insufficient. In this study, investors can use DER as a consideration to see the return that will be obtained from their investment.

(Kasmiati & Santosa, 2019) and (Devi & Artini, 2019) state that the debt-to-equity ratio (DER) has a negative and significant effect on stock returns. This shows that if DER increases, stock returns will decrease. A high DER reflects a high level of company risk, so investors decide to sell the company's shares because the higher the DER, the lower the stock return that investors will receive. However, in contrast (Gilang Gunadi et al., 2015) show that the debt-to-equity ratio (DER) has no significant effect on stock returns.

4. Method and Data

4.1. Object of Research

4.1.1. Population

The population is all data from research objects that have certain characteristics. According to Santosa & Hidayat (2014), population is the entire psychological object that is limited to certain definitive research criteria. The population in this study is seven companies in the cosmetics subsector and household goods listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period.

4.1.2. Sample

The sample is a portion of the data in the research population determined by the researcher with the expectation of having the same characteristics as the population (Santosa & Hidayat, 2014). The technique used in sampling in this study is purposive sampling, which is a sampling technique with certain conditions and criteria in accordance with what is needed in this study. The company criteria that have been determined to be the sample in this study are as follows:

Table 1: Research Sample Selection Stages Based on Research

No	Description	Total
1	Companies in the cosmetics and household goods sub-sector	7
2	Companies in the cosmetics and household goods sub-sectors that do not have complete financial reports for 2017-2021	(1)
	Number of samples	6

Source: Data processed (2023)

4.2. Data Analysis Method

To get the results of the research, it is necessary to analyze the data. The analysis used in this research is quantitative analysis, which is a method related to numerical or numbers. Data management in this study used the E-views program.

4.2.1. Descriptive Analysis

According to Sugiyono (2014), descriptive analysis is an analysis used to analyze data by describing the data that has been collected without intending to make general conclusions. Descriptive analysis aims to provide information about the variables used in a study. Descriptive statistical characteristics in this study include mean, median, maximum value, minimum value, and standard deviation for each variable.

4.2.2. Panel Data Regression Analysis

According to (Basuki, 2016), panel data regression is a regression technique that combines time series data with cross-section data. Time series data is data that has been collected over time on each individual. The panel data analysis technique used in this study aims to determine the effect of the independent variable on the dependent variable using panel data estimation and panel data analysis models (Santosa & Puspitasari, 2019). The panel data equation model in this study is as follows:

Model 1:

$$R_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 EPS_{it} + \varepsilon_{it} \quad (1)$$

Model 2:

$$R_{it} = \beta_0 + \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 EPS_{it} + \beta_4 (ROA_{it} \cdot DER_{it}) + \beta_5 (ROE_{it} \cdot DER_{it}) + \beta_6 (EPS_{it} \cdot DER_{it}) + \varepsilon_{it}$$

(2)

Where:

Rit : Return saham
β0 : Konstanta
β1, β2, β3, β4 : Parameter
ROA : Pengembalian atas Aset
ROE : Pengembalian atas Ekuitas
EPS : Laba Per Lembar Saham
DER Rasio Hutang terhadap Ekuitas
i : perusahaan
t : tahun
Ɛ : error term

5. Results

5.1. Descriptive Data

Based on the descriptive statistical results in this study it is shown in Table 4.2, with the sample characteristics used including sample average (mean), median, maximum value (max), minimum value (min), and standard deviation for each variable. Below shows that in the observation of the cosmetics and household goods sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period, there were 6 companies. The variables used namely stock returns as the dependent variable, return on assets, return on equity, earnings per share, and debt-to-equity ratio as independent variables.

Table 2: Descriptive Statistics

	Return Saham	ROA	ROE	EPS	DER
Mean	0.0347	0.0872	0.2488	279.9883	0.9661
Median	-0.0981	0.0516	0.0692	75.67506	0.6581
Maximum	1.3600	0.4335	1.4779	1293.196	3.4179
Minimum	-0.4939	-0.3028	-0.3793	-489.6620	0.0032
Std. Dev.	0.3875	0.1924	0.5315	444.7357	0.9599
Observations	30	30	30	30	30

Source: Processed data (2023)

5.2. Panel data model estimation

We tested several hypotheses by using three data panel regression models to explain the effect of corporate specification and ownership on the earning information of large firms. The results of each model analysis show three methods, namely CEM, FEM, and REM, that provide interesting effects and need to be tested to find the best model among the three. Finally, a regression model that looked the most sensible from theoretical and statistical viewpoints is FEM. Table 3 explains the results of Model 1, in which almost all variables present conformity to the hypothesis.

Table 3: Panel Data Estimation

Variables	Predicted	Model 1		Model 2	
		Coeff.	Prob.	Coeff.	Prob.
ROA	+	0.0473	0.0073	0.0542	0.0082
ROE	+	0.0129	0.0108	0.0296	0.0198
EPS	+	0.0534	0.0654*	0.0763	0.0704*
Moderating					
ROA·DER	+/-			0.2893	0.0033
ROE·DER	+/-			0.1209	0.0446
EPS·DER	+/-			0.0085	0.0739*

C		1.8729	0.0000	0.7882	0.0291
R^2		0.4881		0.6339	
R^2 adj.		0.5835		0.5422	
F-Statistic		331.430		373.63	
Prob F- Stat		0.0000		0.0000	
D-W stat		1.9537		2.3687	

Note: *significant at 10%

Table 3 covers the period 2018-2022 quarterly in IDX. The missing financial statement data or non-applicable observations were excluded. ROA, ROE, and EPS are the independent variables (proxy: profitability); DER is the debt-to-equity ratio (debt policy) as the moderating variable.

Panel 2 model includes the moderating role of the interaction of firm size with leverage and market ratio. Table 3 presents the analysis of the effect of firm specifications, macro risk indicators as control variables, and the moderating role of debt policy on stock returns. The results show that the profitability hypothesis stating that profitability has a positive effect on stock returns is supported ($p<.01$ and $p<.01$). Furthermore, DER strengthens the effect of profitability (ROA, ROE, and EPS) on stock returns (+), consistent with the significant results ($p < 0.10$). On the other hand, DER as a moderating effect is strengthened as its coefficient is significant in both models. This finding is consistent with the effect of debt policy that has been established in the research results, as discussed earlier. In summary, the interaction between firm profitability and stock returns shows a significant strengthening where all moderating variables are considerable.

6. Discussion

6.1. The Effect of Return on Asset (ROA) on Stock Returns

Table 3 shows the research results that return on assets (ROA) has a positive and significant effect on stock returns. The results of this study are in line with research conducted by (Safira & Budiharjo, 2021), (Siti Aminah, 2021), and (Almira & Wiagustini, 2020) which state that return on assets has a positive and significant effect on stock returns. If the ROA value is higher, the company is considered to be able to take advantage of asset turnover in generating profits so that investors will be interested in investing and will increase the stock price. The rising stock price will increase the probability of stock return earned by investors. The results of this study are slightly different from (Fakhri Rana Sausan et al., 2020) and (Ratih & Candradewi, 2020), which state that the ROA variable has a positive but insignificant effect on stock returns.

6.2. The Effect of Return on Equity (ROE) on Stock Returns

Based on Table 3 shows that return on equity (ROE) has a positive and significant effect on stock returns. The results of this study are in line with research conducted by (Yanti et al., 2020), (Lubis & Alfiyah, 2021), (Adawiyah & Setiyawati, 2019), and (Devi & Artini, 2019), which state that return on equity has a positive and significant effect on stock returns. According to him, the positive relationship between ROE and stock returns indicates that if ROE increases, stock returns will also increase. A high ROE value will influence investors to invest. This will increase the selling price of the company's shares so that it will also increase the return earned by investors. However, it is somewhat different from (Sri Martina et al., 2019) and (Mauli Caroline, 2020), which state that the variable return on equity (ROE) does not affect stock returns.

6.3. The Effect of Earning Per Share (EPS) on Stock Returns

EPS describes the company's profitability on each share. Based on Table 3, the results show that earning per share (EPS) has a positive and significant effect on stock returns at 10% significance. This research is in line with research conducted by (Mudzakar & Intan Pramudya Wardanny, 2021) (Priyanto 2020), (Fakhri Rana Sausan et al., 2020), (Sodikin & Wuldani, 2016), (Caesar Yudhan Shia et al., 2021), and (Rahmawati, 2017) which state that earning per share (EPS) has a positive but insignificant effect on stock returns at 5% significance. The results of this study are in accordance with those (Almira & Wiagustini, 2020) and (Avishadewi & Sulastiningsih 2021), which state that earnings per share (EPS) has a positive and significant effect on stock returns. A high EPS value in a company will have an impact on the higher stock returns obtained by investors.

6.4. The effect of Debt Policy as a moderating variable

Based on Table 3 in Model 2, shows that DER affects the effect of profitability on stock returns; in other words, DER strengthens the relationship between the two and has a positive effect on stock returns. Most investors view DER as the amount of corporate responsibility. This is because if the DER value is higher, it shows that a company is expanding its business. With that, investors want to invest in the company, causing the stock price to increase. The results of this study are in accordance with research conducted by (Avishadewi & Sulastiningsih, 2021), (Marito & Sjarif, 2020), and (Hasanudin et al., 2020), which state that the debt-to-equity ratio (DER) has a positive and significant effect on stock returns. According to him, if the DER value increases, the stock return will also increase, and investors can use DER as a consideration to see the return that will be obtained.

7. Conclusion

In conclusion, the concept of return plays a crucial role in determining investor profits and expectations in the investment market, particularly within the cosmetics and household goods sub-sector. Factors such as return on assets, return on equity, earnings per share, and debt-to-equity ratio influence stock returns. It concludes that profitability, specifically return on assets (ROA) and return on equity (ROE), significantly influences stock returns in the cosmetics and household goods sub-sector companies listed on the Indonesia Stock Exchange. At the same time, earnings per share (EPS) and debt-to-equity ratio (DER) have a positive but insignificant effect. Overall, the study highlights the importance of ROA and ROE as key determinants of stock returns during the period from 2017 to 2021

8. Recommendation

In this research, the moderating effect of the debt-to-equity ratio on these relationships varies, highlighting the complex interplay of factors influencing stock returns in the market. More research in this area is needed to understand further the dynamics of stock returns in the cosmetics and household goods sub-sector to discover more.

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