

# The Effect of Financial Ratio and Firm Size on Stock Return in Property and Real Estate Companies Listed on the Indonesia Stock Exchange

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## ARTICLE INFO

### Article history

Received : 18 januari 2018

Accepted : 17 Mei 2018

Publish : 29 Juni 2018

### JEL Classification:

D53

### Key words:

Stock Return, Financial Ratios, Firm Size

### DOI:

10.14414/tiar.v8i1.1633

## ABSTRACT

*This research aims to find out the effect of financial ratios and firm size on stock return. The object of this research is property and real estate companies listed on the Indonesia Stock Exchange 2012-2016. The independent variables used in this study are financial ratios, consisting of liquidity, profitability, activity and leverage, and firm size, while the dependent variable is stock return. The sampling technique is conducted using purposive sampling method. Data analysis method used is multiple linear regression analysis. The results of this study show that leverage has a significant effect on stock return, but liquidity, profitability, activity but firm size has no effect on stock return.*

## ABSTRAK

*Penelitian ini bertujuan untuk mengetahui pengaruh rasio keuangan dan ukuran perusahaan terhadap return saham. Objek penelitian ini adalah perusahaan properti dan real estat yang terdaftar di Bursa Efek Indonesia 2012-2016. Variabel independen yang digunakan dalam penelitian ini adalah rasio keuangan (yang terdiri dari likuiditas, profitabilitas, aktivitas dan leverage) dan ukuran perusahaan, sedangkan variabel dependen yang digunakan adalah return saham. Teknik pengambilan sampel dilakukan dengan menggunakan metode purposive sampling. Metode analisis data yang digunakan adalah analisis regresi linier berganda. Hasil penelitian ini menunjukkan bahwa leverage berpengaruh signifikan terhadap return saham, tetapi likuiditas, profitabilitas, aktivitas dan ukuran perusahaan tidak berpengaruh terhadap return saham.*

## INTRODUCTION

Capital market is a market used by the parties who need funds and the parties who provide funds to make transactions related to securities. According to Husnan (2005: 4), Capital market has two functions: financial function and economic function. In addition, capital market also has a short-term mobility function for the government because the government can allocate funds to communities through sectors that have potential and provide benefits such as property and real estate sector. Data obtained from the BI website show that over the past four years, from 2014 to 2017, there had always been an increase, but in the fourth quarter of 2014 there was a decrease caused by elections and the effect of loan to value enforcement. The increase was also strengthened by the increase

in property market value in 2017 which initially amounted to IDR 318 trillion, growing up by 15% from IDR 277 trillion in 2016. The residential segment of apartments and housing became the largest contributor, reaching 55.8% of the national property capitalization value. The growth rate of the capitalization value of the residential sector reached 16.5%, from IDR 152.7 trillion to IDR 177.9 trillion (beritasatu, 2017).

The increase in property and real estate growth is followed by the development of the sector. Companies in this sector are increasing and growing, therefore, investors can decide to start investing their shares in the capital market. In this case, stock is one type of securities that can provide high return. This is consistent with the opinion of Suad (2001: 48)

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that investors who are willing to take greater risks and expect greater profits will allocate their funds to riskier securities. For that reason, the investment portfolio can consist of shares. When investing in stocks, investors will face two potential returns. The first is the return from price changes (capital gain/ loss) and the second is the return from stock dividends. However, investors need to remember that in investing, there is a positive relationship between risk and profit. To minimize the risk, investors must be able to carry out fundamental analysis.

According to Lutfi (2016: 1), fundamental analysis aims to find undervalued stocks and sell overvalued stocks. This is in accordance with the Fundamental Analysis Theory which states that investors should buy stock when the market price is below its intrinsic value and sell it when the market price is above its intrinsic value so that the investors will get return from capital gain. Stock return can also be influenced by several factors, one of which is financial performance in the form of ratios, such as liquidity ratios, activity ratios, profitability ratios and leverage ratios. Other factors include company cash flows, company size, company value, and others. Based on the explanation above, this study is entitled "The Effect of Financial Ratios and Firm Size on Stock Return in Property and Real Estate Companies Listed on the Indonesia Stock Exchange".

## **THEORETICAL FRAMEWORK AND HYPOTHESES**

### **Signaling Theory**

According to Godfrey, et al. (2010: 374), signaling theory is an act done by managers to provide signals to investors through accounts in financial statements with the aim to show that company's growth rate will be higher in the future. The relationship between signaling theory and the research variables is that the company can give good signal or bad signal to investors. The signal is in the form of financial statement disclosure information provided by the company. This is very important for investors because information essentially presents notes, descriptions, and explanations about the present, past and future conditions for the survival of the company. In addition, the financial statements contain relevant and important information for the users, especially investors, to know.

### **The Effect of Liquidity on Stock Return**

Liquidity ratio has a short period of time. However, if this ratio has poor results, it can affect the company's ability to pay off its debt in the long run. A low liquidity ratio shows a high liquidation risk, while a high current ratio shows the excess of current assets that will have a bad influence on the profitability of the company.

A company will provide a high rate of return, if the company has a high liquidity ratio because the company has sufficient assets to cover all its debts and is able to provide profits for stocks that have been invested in the company. This is in accordance with the results of research conducted by Mayfi and Rudianto (2014) that the liquidity which is measured using current ratio (CR) has an affect stock return.

### **The Effect of Profitability on Stock Return**

Every company will try to make its profit high. Companies with high profit will be followed by high profitability ratios. The company's high profitability shows that the company has a good ability to use its assets to generate profits. Indirectly, the higher the ratio, the higher the ability of the profit generated to cover the assets of the company if one day the company has a problem, because with high ratio, the company can use it to provide higher return. This has also been stated through the results of several previous studies, such as by Stefano (2015), Mayfi and Rudianto (2014), Anik and Indriana (2013), and Gunadi and Kesuma (2015) that the profitability which is measured using Return on Assets (ROA) has an effect on stock return.

### **The Effect of Activity on Stock Return**

Activity ratio can be used to determine the level of activity of a company's assets in a particular activity. In addition, the activity ratio can describe the activities carried out by the company in carrying out its operations, such as in sales, purchasing and other activities. The higher the activity ratio, the more effective the use of fixed assets is. Companies that can use their assets effectively are considered capable of providing return to what investors have invested in the company, because with good asset management, the company can produce products and high profits.

This ratio is very important to note especially in industries that have a high proportion of assets. The high assets owned

by the company are expected to be able to maximize the company activities. Studies conducted by Bararoh (2015) and Mayfi and Rudianto (2014) show that the activity ratio which is measured using Total Asset Turnover (TAT) has an effect on stock return.

#### The Effect of Leverage on Stock Return

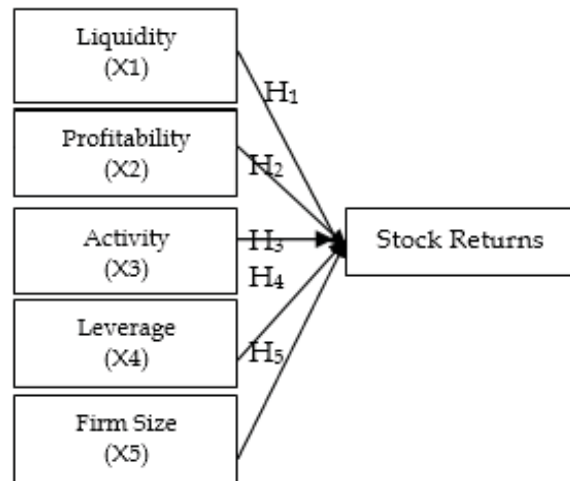
Leverage or debt ratio measures the company's long-term liabilities. Therefore, this ratio is more focused on the right side of the statement of financial position. This ratio can be used to determine the level of debt usage to the total capital owned by the company. The higher the debt ratio, the lower the rate of return obtained by the shareholders because the company still has a lot of obligations to third parties (creditors). The increase in obligations to creditors shows that the source of the company's capital is very dependent on outside parties, so the debt burden borne by the company can reduce the amount of profits earned by the company.

The company's small profit will affect the stock return that will be obtained by investors. Studies conducted by Sudarsono and Sudiyanto (2016) and Thrisye and Simu (2013), show that the leverage ratio which is measured using DER has an effect on stock return.

#### The Effect of Firm Size on Stock Return

Investors can see the level of company's stock return through the size of the company, because the larger the size of the company, the greater the rate of stock return to investors. Large company indicates that the company has a lot of assets that can be used to provide return to investors. This is consistent with the studies conducted by Ernayani and Robiyanto (2016) and Sudarsono and Sudiyatno (2016) that firm size has an effect on stock return.

Based on the theoretical description and some descriptions of previous research, the independent variables used in this study are financial ratios (liquidity, profitability, activity and leverage) and firm size, while the dependent variable is stock return. The framework can be seen in Figure 1.



**Figure 1**  
**Framework**

## RESEARCH METHOD

### Research Design

This research belongs to quantitative research where testing was done on numbers. Data analysis was conducted using statistical tests. The type of data used was secondary data, that is, the data obtained from the source that published the data. Secondary data in this study were obtained from the Indonesia Stock Exchange and World Investment.

### RESEARCH LIMITATION

1. This research only used Property and Real Estate companies listed on the Indonesia Stock Exchange.
2. This research was conducted only over five periods, from 2012 to 2016.
3. The samples used were only Property and Real Estate companies that met the specified criteria.

## OPERATIONAL DEFINITION AND MEASUREMENT OF VARIABLES

### Stock Return

Stock return or the level of stock profits is the benefits that will be obtained by investors from investment activities in the company either directly or through securities companies. In this study, stock return is used as the dependent variable. According to Jogiyanto (2015: 264), return can be calculated using the following formula:

$$\text{Return} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Where:

Return : Level of stock profit

Pt : Stock closing price in year t

Pt-1 : Stock closing price in year t-1 (previous year)

### Liquidity

Liquidity is the ability of a company to pay its obligations. Liquidity is a measure used by a company to assess the extent to which a company can complete its short-term obligations. In this study, liquidity was measured using the current ratio (CR). The current ratio (CR) shows the extent to which the ability of current assets to cover current liabilities of a company. According to Mamduh (2016: 75), liquidity can be measured using the following formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Debt}}$$

### Profitability

Profitability is the ability to earn profits. Profitability is a measure used by a company to assess the extent to which the company is able to generate profits. In this study, profitability was measured using Return on Assets (ROA). ROA describes the ability of a company to generate net income based on the level of assets it has. According to Mamduh and Abdul (2016: 81), profitability can be measured using the following formula::

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

### Activity

Activity is a ratio that describes the activities done by a company in carrying out its operations in sales, purchases, and other activities. The ratio of activity can be used to measure the extent to which the assets are effective. In this study, activity was measured using Total Asset Turnover (TAT). Total Asset Turnover can be measured by sales volume. TAT shows how much the ability of company assets to create sales. According to Mamduh (2016: 78), activity can be measured using the following formula:

$$\text{Total Asset Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

### Leverage

Leverage is a ratio used to measure the ability of a company to pay off long-term debt. Company debt can be covered by using

company assets or equity. According to Mamduh (2016: 78), leverage can be measured using the following formula:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

### Firm Size

Firm size is a scale which can be classified as the size of a company according to various ways, such as total assets, sales, log size, stock market value, market capitalization, and others which are all highly correlated. According to Niresh (2014: 57), firm size can be measured using the following formula:

$$\text{Size} = \ln(\text{Total Asset})$$

Where:

Size : Firm size

$\ln(\text{Total Asset})$  : Log natural total asset

### POPULATION, SAMPLE, AND SAMPLING TECHNIQUE

The population in this study is all Property and Real Estate companies listed on the Indonesia Stock Exchange. Sampling is the process of selecting the number of elements of the population enabling to generalize the characteristics of the population elements. In this study, sampling was done using a purposive sampling method. Purposive sampling method is a sampling process that limits the number of samples based on the criteria specified by researchers to show better results. The criteria used consist of:

1. Property and Real Estate companies listed on the IDX and had submitted financial statements for 2012-2016 that had been audited.
2. Property and Real Estate companies listed on the IDX that had presented the required research data in full during 2012-2016.

### DATA ANALYSIS TECHNIQUE

The data analysis technique used in this study was descriptive statistics, classical assumption test (consisting of normality test, multicollinearity test, heteroscedasticity test and autocorrelation test), multiple linear regression analysis, and hypothesis testing (F test, coefficient of determination, and t test).

Multiple linear regression analysis can be done using the following formula:

$$R = \alpha + \beta_1 \text{CR} + \beta_2 \text{ROA} + \beta_3 \text{TAT} + \beta_4 \text{DER} + \beta_5 \text{SIZE} + \epsilon_{it}$$

Where:

R : Stock return



A : Constant coefficient  
 B1,2,3,4,5: Coefficient of independent variables  
 CR : Current Ratio  
 ROA : Return on Asset  
 TAT : Total Asset Turnover  
 DER : Debt to Equity Ratio  
 SIZE : Firm Size  
 $\epsilon$  : Error  
 i : Company  
 t : Year

## DATA ANALYSIS AND DISCUSSION

### Descriptive Statistics Analysis

Descriptive analysis explains the data on the minimum, maximum, mean, and standard deviation values. The results of the descriptive analysis show that:

### Stock Return

The minimum value of -87.529 percent was owned by PT. Bumi Citra Permai, Tbk (BCIP) in 2016. This happened because the company experienced a decline in the closing price which was originally IDR 850 to IDR 106 in 2016. The maximum value of 11.57576 or 1157.576 percent was owned by PT. Gowa Makassar Tourism Development, Tbk. (GMTD) in 2013, because there was a high increase in the closing price in 2013 compared to the closing price in the previous year, or 2012.

In 2013, the closing price of GMTD was IDR 8,300, up by IDR 7,640 compared to IDR 660 in 2012. The mean value was 0.2001961. This mean value was far above the maximum value of stock return. There were 65 companies that had return above average and there were 134 companies that had return below the average. The standard deviation value was 1.05278699. The standard deviation value was higher or above the mean value, meaning that

the level of data distribution was fairly large or heterogeneous.

The highest mean value of stock return was in 2013 and decreased in the following year. Overall, average stock return fluctuated, indicating that the level of stock return of property and real estate companies fluctuated during the study period (Figure 2).

### Liquidity

The minimum value of liquidity was 0.20773 or 20.77 percent. This value was owned by PT. Bukit Darmo Property, Tbk (BKDP) in 2016. This happened because BKDP's short-term liabilities were higher than its current assets, so BKDP could not fulfill or pay off its short-term debt until maturity date. PT. Metro Realty (MTSM) had a maximum value of 19.06741 or 1906,741 percent in 2016, indicating that MTSM had sufficient current assets so that it could be used to meet its short-term obligations quickly.

The mean value of the liquidity was 2.6761723, which was far above the maximum liquidity value. There were 63 companies that had liquidity value above the average and there were 136 companies that had liquidity value below the average. The standard deviation value was 2.78753174. The standard deviation value was higher or above the mean value, meaning that the level of data distribution was fairly large or heterogeneous

The highest mean value of liquidity was in 2016 after a continuous increase from 2014. Overall, the mean value of liquidity tended to increase and could be used to cover short-term debt. This could be due to higher company assets or decreasing corporate liabilities (Figure 3).



Figure 2  
 Graph of the Average Stock Return

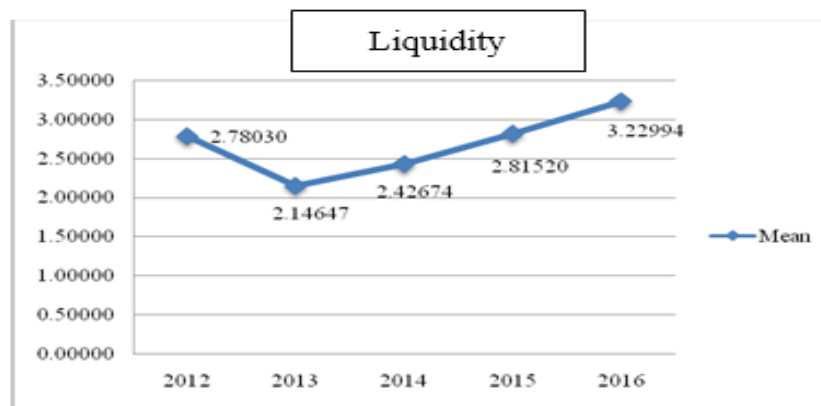


Figure 3  
Graph of the Average Liquidity

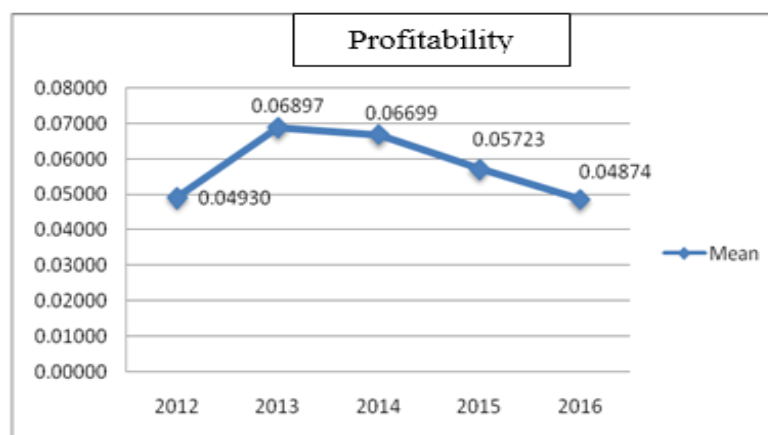


Figure 4  
Graph of the Average Profitability

#### Profitability

The minimum value of profitability was -0.08795 or -8.795 percent. The significant value was not followed by an increase in company profits.

The highest mean value of profitability was in 2013 and decreased in the following year. On the whole, the mean value of profitability tended to decrease, this occurred because during the last three years several Property and Real Estate companies experienced a significant increase in the number of assets without being followed by an increase in company profits (Figure 4).

#### Activity

The minimum value of activity was 0.01231 or 1.231 percent owned by PT. Greenwood Sejahtera (GWSA) in 2015. This was because GWSA's sales in 2015 decreased almost half of previous year's sales. The maximum value was 0.52113 or 52.113 percent owned by PT.

Fortune Mate Indonesia (FMII) in 2016. This happened because in 2016 FMII's sales had a significant increase almost three times as many as the sales in 2015 and followed by a decrease in total assets in 2016.

The mean value of activity was 0.2232710. This mean value approached the maximum value of activity. There were 102 companies that had the activity value above the average and there were 97 companies that had activity value below the average. The standard deviation value was 0.09779672. The standard deviation value was smaller or below the average, meaning that the level of activity data distribution was fairly small and homogeneous.

The highest mean value of activity was in 2013 and decreased in the following year. Overall, the mean value of activity tended to decrease. This occurred because the majority of sample companies had a total asset greater than the level of sales obtained (Figure 5).

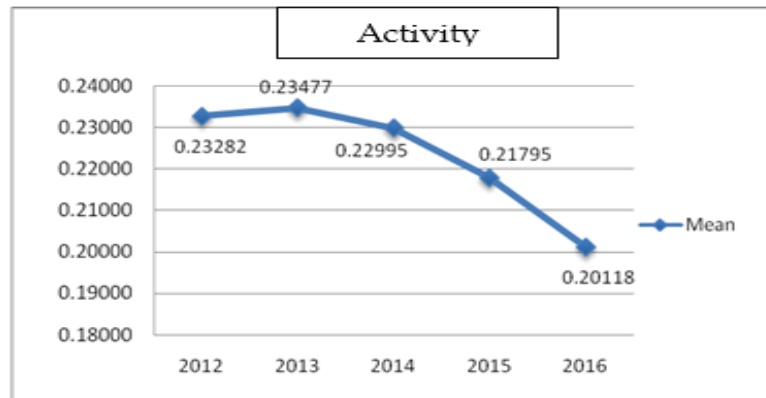


Figure 5  
Graph of the Average Activity

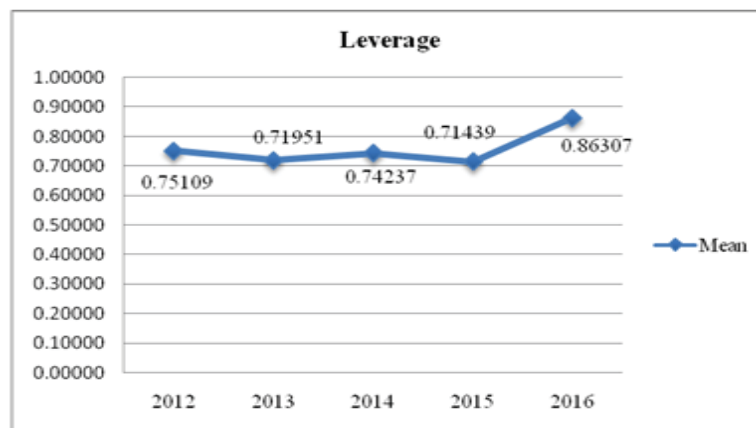


Figure 6  
Graph of the Average Leverage

### Leverage

The minimum value of leverage was 0.03469 or 3.469 percent owned by PT. Ristia Bintang Mahkota Sejati (RBMS) in 2016. This happened because RBMS in 2016 had the smallest total debt compared to other companies. The maximum value was 4.80456 or 480.456 percent owned by PT. Plaza Indonesia Realty (PLIN) in 2016.

The mean value of leverage was 0.7588498. This mean value was far above the maximum value of leverage. There were 81 companies that had leverage value above the average and there were 118 companies that had leverage value below the average. The standard deviation value was 0.58714691. The standard deviation value was smaller or below the mean value, meaning that the leverage data distribution was relatively small and homogeneous.

The highest mean value of leverage was in 2016 after experiencing increases and decreases in the previous years. Overall, the values of leverage fluctuated, indicating that

the company had an ability to pay off its debt using capital. Despite fluctuation in the average leverage, the results obtained were also quite good because the mean value of leverage was less than one (1) (Figure 6).

### Firm Size

The minimum value of firm size was 21.16169 or 2116.169 percent, owned by PT. Metro Realty, Tbk (MTSM) in 2016 with a total asset value of IDR 84,641,766,703. This could be interpreted that the company's ability to attract investors was still not good because the company was considered in small scale. Conversely, the maximum value of 31.45101 or 3145.101 percent was owned by PT. Lippo Karawaci (LPKR) in 2016 with a total asset value of IDR 45,603,683,000,000. LPKR had maximum value because in 2016 LPKR had the highest total assets compared to other Property and Real Estate companies.

The mean value of firm size was 28.7710729. This mean value was close to the

maximum value of firm size. There were 112 companies that had a firm size value above the average and there were 87 companies that had a firm size value below the average. The standard deviation value was 1.45912526. The standard deviation value was smaller or below the mean value, meaning that the firm size data distribution level was relatively small and homogeneous.

The highest mean value of firm size was in 2016 after experiencing an increase in previous years. Overall, the average firm size increased. This increase was caused by an increase in total assets in Property and Real Estate companies during the study period (Figure 7).

## CLASSICAL ASSUMPTION TEST

### Normality Test

The normality test aims to find out whether the regression model, dependent variable and independent variables are normally distributed. The normality test in this study was done using the Kolmogorov-Smirnov (K-S) non-parametric statistical test. The results of the SPSS show that the significance level was 0.000, so the significance level was  $< 0.05$ , indicating that the data were not normally distributed.

From the abnormal results, outlier data was carried out by removing the z-res data whose value were  $\geq 3$  so that the data could be normally distributed. After outlier data was done 3 times, there were 6 companies discarded, but the data remained not normally distributed. Therefore, this study still used the initial data as the research sample.

### Multicollinearity Test

Multicollinearity test is used to test whether in a regression model there is a correlation between independent variables. Multicollinearity can be seen based on Variance Inflation Factor (VIF) and tolerance value. The tolerance value limit was  $\geq 0.10$  with VIF value of  $\leq 10$ , so it could be concluded that there was no multicollinearity between independent variables in the regression model.

Based on the results of SPSS, it was obtained that the tolerance values for all variables were more than 0.10 with the VIF value less than 10, so it could be concluded that there was no multicollinearity between the independent variables in the regression model.

### Heteroscedasticity Test

Heteroscedasticity test is used to test whether there is an inequality of variance of residuals from one observation to another in a regression model. In this study, Heteroscedasticity test was carried out using the glejser test.

Based on the results of SPSS, it was obtained that the significance value was less than 0.05, for ROA, DER and SIZE, meaning that there was Heteroscedasticity in the regression model. The CR and TAT variables had a significance value of more than 0.05, meaning that they did not experience Heteroscedasticity.

### Autocorrelation Test

Autocorrelation test aims to test whether in a linear regression there is a correlation between interfering errors in period  $t$  and interfering errors in period  $t_1$  (previously). The model can be declared "good", if the regression

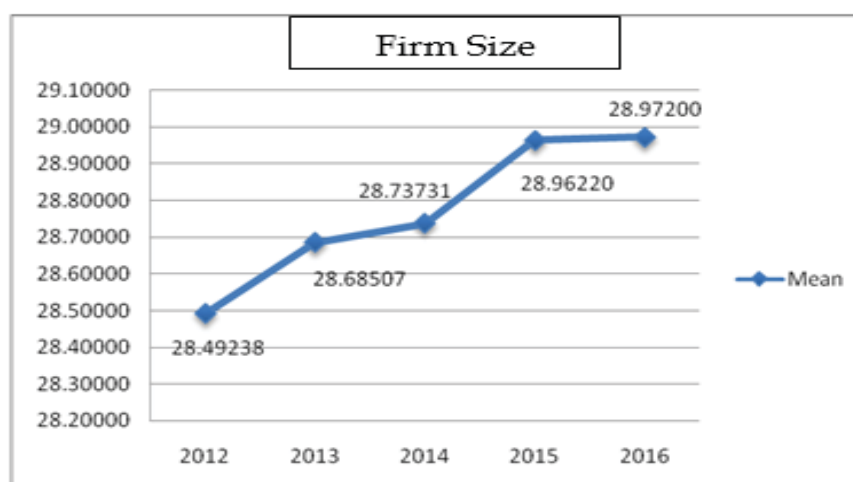


Figure 7  
Graph of the Average Firm Size



model is free from autocorrelation. This study used the Run Test analysis tool.

Based on the results of SPSS, it was obtained that a significance value was 0.831. The value was greater than 0.05, so it could be concluded that there was no autocorrelation.

### Multiple Linear Regression Analysis

The strength of the relationship between two or more variables can be measured by regression analysis. Regression analysis measures not only the strength of the relationship between variables, but also the direction of the relationship between the dependent variable and independent variables. According to Imam (2016: 93), basically regression analysis aims to determine the dependence of the dependent variable on one or more independent variables. The coefficient for each variable is the result of regression analysis both with positive and negative results. The regression equation produced from the analysis is as follows:

$$R = 2.026 + 0.003 CR + 1.822 ROA + 0.269 TAT + 0.416 DER - 0.081 SIZE + it$$

From the equation above, it can be explained that the regression coefficient of leverage (DER) (X4) is 0.416, indicating that every increase of one unit in the leverage variable (DER), the stock return will increase by 0.416.

## HYPOTHESES TEST

### F Test

F test is conducted to find out whether a regression equation model is fit or not fit. Based on the results of SPSS, it was obtained that F count value was 2.556, with a significance level of  $0.029 < 0.05$ . It could be concluded that the regression model was fit and could be used to determine the effect of the variables of liquidity, profitability, activity, leverage and firm size simultaneously on the variable of stock return.

### Coefficient of Determination ( $R^2$ )

The coefficient of determination ( $R^2$ ) is used to measure how much the ability of the model (independent variables) to explain the variation of the dependent variable. The value of coefficient of determination is between zero and one. Based on the results of SPSS, the adjusted R Square value was 0.038 or 3.8%, indicating that the variables of liquidity, profitability, activity, leverage, and firm size affected stock returns by 3.8 percent, while 96.2% was explained by other variables outside the independent variables studied. The

adjusted R Square value was 3.8, indicating that the ability of independent variables to explain variables was low because the value was  $\leq 50\%$ .

### T Statistical Test

The t-test aims to show the extent to which each independent variable individually explains the variation of the dependent variable. This is used to find out the truth of the statements hypothesized by the researcher. Whether or not the independent variables influence the dependent variable can be seen from the significance value. If the significance value is less than 0.05, then  $H_0$  is rejected so that there is an influence. The results of t test are as follows:

#### The First Hypothesis Test

The first hypothesis test was conducted to test the effect of liquidity on stock return. Based on table 4.15, it can be seen that the t value is 0.102 with a significance level of 0.919. The significance level of 0.919 is greater than 0.05, which means that liquidity has no effect on stock return, so  $H_1$  is rejected.

#### The Second Hypothesis Test

The second hypothesis test was conducted to test the effect of profitability on stock return. Based on table 4.15, the t value is 1.320, with a significance level of 0.189. The significance level of 0.189 is greater than 0.05, which means that profitability has no effect on stock return, so  $H_2$  is rejected.

#### The Third Hypothesis Test

The third hypothesis test was conducted to test the effect of activity on stock returns. Based on table 4.15, it can be seen that the t value is 0.283, with a significance level of 0.777. The significance level of 0.777 is greater than 0.05, which means that the activity has no effect on stock return, so  $H_3$  is rejected.

#### The Fourth Hypothesis Test

The fourth hypothesis test was conducted to test the effect of leverage on stock return. Based on table 4.15, it can be seen that the t value is 2.819, with a significance level of 0.005. The significance level of 0.005 is smaller than 0.05, which means that leverage has an effect on stock returns, so  $H_4$  is accepted.

#### The Fifth Hypothesis Test

The fifth hypothesis was conducted to test the effect of firm size on stock return. Based on table 4.15, it can be seen that the t value is

-0.112, with a significance level of 0.155. The significance level of 0.155 is greater than 0.05, which means that the firm size has no effect on stock return, so  $H_5$  is rejected.

## DISCUSSION

### The Effect of Liquidity on Stock Return

Liquidity is a financial ratio used to measure the ability of a company to cover its short-term debts. In this study, liquidity was measured using Current Assets (CR). Current assets describe the company's ability to cover its short-term debt using the company's current assets. The higher the liquidity ratio, the better the company provides returns to investors.

The results of t test analysis using multiple linear regression show that liquidity (CR) has no effect on stock returns. This is supported by descriptive data showing that most companies have a high current ratio (CR). The high current ratio is caused by the high current assets of the company and low short-term debt, so that there are too many assets that are not used. A high current ratio can indicate that the company will be far from the problem of liquidation because it is considered capable of repaying the term debts, but a high CR does not necessarily guarantee that it will be able to pay off the company's debt that is due. So investors will not be sure to get a high return. This is evidenced by the graph of average liquidity that is moving up during the period of observation, while the average stock return fluctuates from year to year. The graph shows that liquidity does not affect stock returns because the level of liquidity growth is contrary to the growth of stock returns. The results of this study are in line with the results of the research conducted by Stefano (2016), Bararoh (2015), Thrisye and Simu (2013) and Anik and Indriana (2013) that liquidity has no effect on stock returns. However, the results of this study are in contrast with the results of the research conducted by Mayfi and Rudianto (2014).

### The Effect of Profitability on Stock Returns

Profitability is a financial ratio used to measure the company's ability to generate profits. In this study, profitability was measured using return on assets (ROA). ROA shows the level of ability of a company's profit to cover the company's assets if one day the company experiences a problem. The high profitability shows the better performance of the company so that the profits can be given to investors.

The results of t test analysis using multiple linear regression show that profitability (ROA) has no effect stock return. This shows that if the company is less effective in utilizing its assets to generate profits, it will reduce the investor interest in buying the shares of Property and Real Estate companies. As a result the company's income declines. This means that the company has bad performance and is less able to manage money to create money, which ultimately reduces the company's ability to provide returns to investors.

The stocks with a high level of liquidity will make it easier for investors to sell and buy the stocks so that the return provided will also decrease. In descriptive statistical analysis shows that the average profitability tends to decrease and the average stock return grows fluctuating. This means that the company has a lower ROA value each year, making the information received by investors less favorable and resulting in low stock trading transactions, thus having an impact on the return of profits.

The results of this study are in line with the results of the research conducted Sudarsono and Sudiyanto (2016), Thrisye and Simu (2013) and Nurkhasanah (2013) that profitability has no effect on stock returns. However, the results of this study contradict the results of the studies conducted by Stefano (2015), Gunadi and Kesuma (2015), Mayfi and Rudianto (2014) and Anik and Indriana (2013) that profitability has an effect on stock return in Property and Real Estate companies.

### The Effect of Activity on Stock Return

Activity is one of the financial ratios used to determine the level of activity of a company's assets in a particular activity. In this study, activity was measured using total asset turnover (TAT). The higher the activity ratio, the better the company's performance is. It is because it shows that the management strategy is successful. Conversely, if the ratio is low, the management must evaluate its strategy.

The results of the t test analysis using multiple linear regression show that activity (TAT) has no effect on stock return. This is supported by descriptive data which show that a low ratio has a small potential in attracting investors to invest in a company.

The small value of activity indicates that the company has not been efficient in managing its assets so that it is unable to generate high sales. In descriptive analysis shows that

the average activity tends to decrease and the average stock return grows fluctuating, meaning that the increase in company assets cannot generate good sales, resulting in a low ratio and this cannot affect stock return.

The results of this study are in line with the results of the results of the studies conducted by Stefano (2015) and Thrisye and Simu (2013) that activity has no effect on stock returns. On the contrary, the results of this study are not in line with the results of the studies conducted by Bararoh (2015) and Mayfi and Rudianto (2014) that activity has an effect on stock returns.

### **The Effect of Leverage on Stock Return**

Leverage is used to assess a company's ability to pay off its debt. In this study, leverage is measured using debt to equity (DER). The higher the leverage ratio, the lower the return rate for investors because the company will pay off the company's debt obligations.

The results of t test using multiple linear regression analysis show that leverage (DER) has an effect on stock return in Property and Real Estate companies. The higher the leverage ratio, the lower the return that will be given to investors is. This is because the level of dependence of the company on investors or outsiders is quite high, so the level of risk of the company is getting bigger in paying off its obligations or debts, including its interest. In addition, this will also have an impact on the decline in stock prices which will be followed by a decline in stock return so that investors are not responsive to the company. In the graphical descriptive analysis, the average leverage fluctuated and the average stock return also fluctuated during the study period. This means that the level of leverage fluctuations affects stock return.

The results of this study are in line with the results of the studies conducted by Sudarsono and Sudiyatno (2016) and Thrisye and Simu (2013) that leverage has an effect on stock return. The results of this study are not in line with the results of the studies conducted by Stefano (2015), Gunadi and Kesuma (2015), Bararoh (2015), Mayfi and Rudianto (2014) and Anik and Indriana (2013) that leverage has no effect on stock return.

### **The Effect of Firm Size on Stock Returns**

Firm size can be used to know the size of a company. Firm size can be seen from the size of capital or total assets held. Firm size can also be seen from the total sales obtained. The

bigger the company, the greater the company's activities so that it can generate large profits. In addition, the company is also considered to have the ability to bear the risks that will arise in the company relating to its operations. In this study, firm size was measured using Ln (total assets).

The results of t-test show that the variable of firm size has no effect on the stock return in Property and Real Estate companies listed on the Indonesia Stock Exchange. This proves that not all large companies can provide higher return to investors. In addition, small companies are also considered to have a higher risk and return than large companies. The results of the descriptive analysis show that the average firm size experiences an increase while the average stock return fluctuates. The large firm size does not make investors interested in investing their funds. The results of this study are in line with the results of the study conducted by Adiwaratama (2012) that firm size has no effect on stock return. However, the results of this study are contrary to the results of the studies conducted by Sudarsono and Sudiyatno (2016) and Ernayani and Robiyanto (2016) that firm size has an effect on stock return.

## **CONCLUSION, LIMITATION, AND SUGGESTION**

### **Conclusion**

This study has some conclusions. Based on the results of F-test, it can be seen that the regression model is fit and can be interpreted that the independent variables (Liquidity, Profitability, Activity, Leverage and firm size) can predict the dependent variable (stock return) in Property and Real Estate companies

Based on the results of the coefficient of determination ( $R^2$  test), 3.8 percent of the variables of liquidity, profitability, activity, leverage and firm size are able to influence stock return in Property and Real Estate companies, while 96.2 percent are influenced by other variables outside the independent variables examined.

The results of hypothesis test (t-test) can be concluded as follows:

The first hypothesis ( $H_1$ ) is rejected because liquidity has no effect on stock return in Property and Real Estate companies listed on the Indonesia Stock Exchange in 2012-2016.

The second hypothesis ( $H_2$ ) is rejected because profitability has no effect on stock return in Property and Real Estate companies



listed on the Indonesia Stock Exchange in 2012-2016.

The third hypothesis ( $H_3$ ) is rejected because activity has no effect on stock return in Property and Real Estate companies listed on the Indonesia Stock Exchange in 2012-2016.

The fourth hypothesis ( $H_4$ ) is accepted because leverage has an effect on the stock return in Property and Real Estate companies listed on the Indonesia Stock Exchange in 2012-2016.

The fifth hypothesis ( $H_5$ ) is rejected because firm size has no effect on stock return in property and real estate companies listed on the Indonesia Stock Exchange in 2012-2016.

### Limitation

This study has several limitations as follows:

The data in this study were not normally distributed and Heteroscedasticity occurred. This happened because the data used were not normal so an outlier needed to be done, but due to extreme data values, the data were declared not normally distributed.

The regression model in this study could only explain the relationship between variables at 3.8 percent so that the remaining 96.2 percent were influenced by other variables outside regression model.

### Suggestion

The suggestions that can be put forward in this study are as follows:

For further study, the next researchers with similar topics, are expected to use broader independent variables that have relevance to stock return, such as cash flow, firm value, gross profit and EPS. The next researchers can also use company's external factors, such as BI rate, exchange rate, inflation and foreign exchange reserves, so that the results can cover the research broadly. The next researchers are also expected to use more independent variables that can influence the variable of stock return. In addition, it is also expected that further research can use data that have no extreme value so that the data that will tested using normality test are normally distributed and there is no need to do data outliers.

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