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The Influence of Financial Ratios on Stock Returns in Household Equipment and Furniture Manufacturing Companies Listed on Indonesia Stock Exchange

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Abstract

This study aims to analyse the effect of financial ratios on stock returns in manufacturing companies in the household appliances and furniture sub-sector listed on the Indonesia Stock Exchange during the research period of 2017-2024. In this study, the methods used include descriptive statistics, model selection tests, classical assumption tests, panel data regression tests, R^2 tests, t-tests, and F-tests, with the analysis tool being Eviews 13. The results of the study indicate that Price to Book Value (PBV) has a partial effect on stock returns, while Current Ratio (CR), Debt to Equity Ratio (DER), Total Asset Turnover (TATO), and Gross Profit Margin (GPM) do not have a partial effect on stock returns.
Keywords: Current Ratio,Debt to Equity Ratio,Total Asset Turnover, Gross Profit Margin, Price to Book Value, Return

1. Introduction

Every economic actor will always be faced with the complex dynamics of the capital market, where investment decisions are strategic choices to optimize potential capital growth and achieve financial returns. The capital market is a place for various parties to sell stocks and bonds (Fahmi, 2015). The capital market serves as a funding source for companies and other institutions, as well as a platform for investment activities. Therefore, the capital market facilitates various facilities and infrastructure for buying and selling and other related activities.

The development of the capital market in Indonesia has experienced rapid growth. The Indonesia Stock Exchange (IDX) recorded that the number of Indonesian capital market investors has surpassed 13 million single investor identification (SID) holders, with more than 863,000 new SIDs added throughout 2024. Capital market players have recognized that securities trading can generate substantial returns and significantly contribute to the country's economic development.

Investment is the act of gaining profit by investing a sum of money or purchasing a valuable asset. In this case, the goal of investment is to obtain a return. According to Umam & Sutanto (2017), return is the rate of return for common stock and is the cash payment received as a result of ownership of a share, divided by the share price at the time of the initial investment. Return is important for investors or capital owners because it represents the expectation of future profits that compensate for the time and risk associated with the investment. The level of investor demand and supply will affect the company's stock price. A high rate of return will increase investors' profits and income from their investment activities.

The manufacturing sector is one of the backbones of the Indonesian economy. Manufacturing is the process of converting raw materials into goods with added value after undergoing operational or assembly processes (Sulistyarini, 2018, in Fajrah et al., 2023). According to data from the Central Statistics Agency (BPS), the manufacturing sector contributed significantly to Gross Domestic Product (GDP), reaching 19.87% in 2022.

The household appliances and furniture subsector is a vital part of the manufacturing sector listed on the Indonesia Stock Exchange (IDX). These companies produce a wide range of household appliances and furniture, from furniture and kitchenware to interior fittings, which play a vital role in meeting consumer needs. Some companies operating in this subsector include PT Langgeng Makmur Industry Tbk., PT Kedaung Indah Can Tbk., PT Integra Indocabinet Tbk., PT Chitose Internasional Tbk., PT Gema Grahasarana Tbk., and PT Multi Indocitra Tbk. (www.sahamu.co.id).

An interesting phenomenon can be seen from the stock returns of companies in the household appliances and furniture sub-sector during the 2017-2024 period, as shown in the following table:

CODE	YEAR							
	2017	2018	2019	2020	2021	2022	2023	2024
LMPI	0.237	-0.138	-0.382	-0.045	1.294	-0.405	-0.043	0.225
WAKE UP	0.425	0.661	-0.289	0.050	0.358	-0.285	-0.345	-0.030
WOOD	-0.076	1.520	0.114	-0.182	0.451	-0.545	-0.204	0.139
BELT	0.030	-0.063	0.001	-0.192	0.277	-0.237	-0.291	0.158
ECHO	1.333	-0.669	0.085	0.038	0.023	-0.153	-0.067	-0.404
MICE	-0.200	0.086	-0.038	-0.124	0.362	0.368	0.112	-0.142

Based on the table above, there are varying trends in stock returns each year. LMPI experienced the largest surge in returns in 2021, rising to 129%, after a sharp decline of -38% in 2019. KICI recorded very high returns in 2018 at 66%, but declined to -29% in 2019 and returned to negative territory at -35% in 2022. WOOD surged to 152% in 2018, but dropped drastically to 11% in 2019 and recorded negative returns in the following years. CINT tends to be more stable, but has fallen -29% in 2023 and rose again by 16% in 2024. GEMA experienced a significant increase of 133% in 2017, then fell sharply to -67% in 2018 and again experienced a major decline to -40% in 2024. Meanwhile, MICE shows an inconsistent pattern, with the highest return of 37% in 2022, but again fell to -14% in 2024. This phenomenon shows that each company experienced very significant fluctuations in returns, both increases and decreases, thus illustrating the high volatility of stock returns during the observation period.

The downward and fluctuating trends observed between 2017 and 2024 in most manufacturing companies in the household appliances and furniture subsector will influence investor interest in investing in this sector. Investors will be more cautious about investing in companies experiencing a downward trend or sharp fluctuations. This is because the primary goal of investors in investing is to achieve optimal returns. Therefore, investors need to make rational considerations by gathering various necessary information before making investment decisions.

In analyzing stock returns, several factors can influence stock returns, including fundamental analysis, technical analysis, market sentiment, macroeconomic conditions, and external factors such as industry trends. Fundamental factors are often used as a basis for investors in the capital market to make investment decisions. In fundamental analysis, there are several financial ratios that can reflect the financial condition and performance of a company. According to Fred Weston in Umam & Sutanto (2017), ratios in financial research include liquidity ratios, leverage or solvency ratios, activity ratios, profitability ratios, and market valuation ratios. In this study, four financial ratios will be used: the liquidity ratio measured by the Current Ratio (CR), the solvency ratio or measured by the Debt to Equity Ratio (DER), the activity ratio measured by Total Assets Turnover (TATO), the profitability ratio measured by Gross Profit Margin (GPM), and the valuation ratio measured by Price to Book Value (PBV) in determining stock returns.

Hypothesis

Current Ratio and Return Variable Hypothesis. Research findings conducted by Safitri (2024), Andriani (2020), and Indiyani et al. (2020) state that the Current Ratio (CR) partially influences stock returns. Therefore, the hypothesis can be formulated as H1: It is suspected that the Current Ratio (CR) has a significant partial effect on stock returns. After the analysis, it was concluded that H1 was accepted, meaning the Current Ratio has a partial effect on stock returns.

Debt to Equity Ratio and Return Hypothesis. Research findings conducted by Ersyafdi & Aslamiyah (2023), S. Setianingsih & Hamzah (2020) state that the Debt to Equity Ratio (DER) partially influences stock returns. Therefore, the hypothesis can be formulated as H2: It is suspected that the Debt to Equity Ratio (DER) has a significant partial effect on stock returns. After the analysis was conducted, it was concluded that H2 was accepted, which means the Debt to Equity Ratio has a partial effect on stock returns.

Hypothesis of Total Asset Turnover and Return Variables. Research findings conducted by Setianingsih & Hamzah (2020) and Andriani (2020) state that Total Asset Turnover (TATO) partially influences stock returns. Therefore, the hypothesis can be formulated as H3: It is suspected that Total Asset Turnover (TATO) has a significant partial effect on stock returns. After the analysis was

conducted, it was concluded that H3 was accepted, meaning Total Asset Turnover has a partial effect on stock returns.

Hypothesis of Gross Profit Margin and Return variables. Research findings conducted by Ummah (2023) and Putri (2022) stated that Gross Profit Margin (GPM) has no partial effect on stock returns. Therefore, the hypothesis can be formulated as H4: It is suspected that Gross Profit Margin (GPM) has a significant partial effect on stock returns. After the analysis, it was concluded that H4 was accepted, meaning Gross Profit Margin has a partial effect on stock returns.

Hypothesis of Price to Book Value and return variables. Research findings conducted by Safitri*et al.*(2024), Esanoveliansyah & Ichwanudin (2021), and Novensa (2021) stated that Price to Book Value (PBV) partially influences stock returns. Therefore, the hypothesis can be formulated as H5: It is suspected that Price to Book Value (PBV) has a significant partial effect on stock returns. After the analysis, it was concluded that H5 was accepted, meaning Price to Book Value has a partial effect on stock returns.

The hypothesis regarding the Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Gross Profit Margin, and Price to Book Value simultaneously affects stock returns. Based on previous research, it was found that the variables Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Gross Profit Margin, and Price to Book Value simultaneously have a significant effect on stock returns. Therefore, the hypothesis that can be formulated is H6: Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Gross Profit Margin, and Price to Book Value simultaneously have a significant effect on stock returns. After the analysis was conducted, it was concluded that H6 was accepted, which means these five variables simultaneously have a significant effect on stock returns.

3. Methods

This research was conducted at manufacturing companies in the household appliances and furniture sub-sector listed on the Indonesia Stock Exchange for the 2017-2024 period through several sites.www.idx.co.id. A sample of 6 companies was selected using purposive sampling techniques. This research is quantitative.

The variables identified in this study are the Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Gross Profit Margin, and Price to Book Value as independent variables, while the return variable is the dependent variable.

Data processing methods in this study include using model selection tests, normality tests, heteroscedasticity tests, multicollinearity tests, panel data regression analysis, coefficient of determination analysis, t-tests, and F-tests.

3. Results and Discussion

3.1 Results

Table 1. Descriptive Analysis of Respondents

	X1_CR	X2_DER	X3_THAT	X4_GPM	X5_PBV	AND
Mean	2.409979	1.027208	0.750333	0.289188	0.795458	0.058292
Median	1.615500	0.813500	0.745000	0.271000	0.630000	-0.034000
Maximum	7.986000	3.920000	1.234000	0.568000	3.823000	1.520000
Minimum	0.162000	0.245000	0.285000	0.048000	0.263000	-0.669000
Std. Dev.	2.072366	0.731252	0.246017	0.133289	0.584867	0.437108
Observations	48	48	48	48	48	48

Source: Data processed by Eviews 13 researchers

Based on table 4.1 above, it can be concluded that in this model with a sample size of 48, the variable*Current Ratio*(CR) has the smallest (minimum) value of 0.162 and the largest (maximum) value of 7.986, with an average of 2.409979 and a standard deviation of 2.073266. The variable*Debt Equity Ratio*(DER) has the smallest value of 0.245 and the largest value of 3.92, with an average of 1.027208 and a standard deviation of 0.731252. The variable*Total Asset Turnover*(TATO) has a minimum value of 0.285 and a maximum of 1.234, with a mean of 0.750333 and a standard deviation of 0.246017.*Gross Profit Margin*(GPM) has the smallest value of 0.048 and the largest of 0.568, with

an average of 0.289188 and a standard deviation of 0.133289. The variable*Price to Book Value*(PBV) has a minimum value of 0.263 and a maximum of 3.823, with an average of 0.795458 and a standard deviation of 0.584867. Finally, the variable*Return*(Y) has the smallest value of -0.669 and the largest 1.52, with an average of 0.058292 and a standard deviation of 0.437108.

Table 2. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	2.455732	(5,37)	0.0511
Cross-section Chi-square	13.755513	5	0.0172

Source: Data processed by Eviews 13 researchers

The probability value of F in this study is 0.0511, which means in the Chow test that the *Common Effect*is model the appropriate model for panel data regression. Because the Chow test selected the Common Effect Model, the Hausman test was ignored.

Table 3. Lagrange Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	**Time**	**Both**
Breusch-Pagan	0.004503 (0.9465)	0.942540 (0.3316)	0.947043 (0.3305)

Source: Data processed by Eviews 13 researchers

The calculated LM value in this study is 0.9465, which means in the Lagrange test that the model*Common Effect*is the appropriate model for panel data regression. Based on the model test above, it is concluded that the appropriate model for panel data regression is the Common Effect Model.

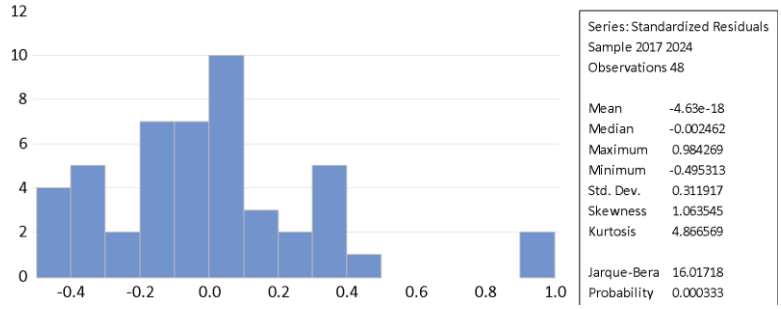

Figure 1. Normality Test
Source: Data processed by Eviews 13 researchers

Based on the results of the normality test of the data above with histogram data, it can be seen that the data has a probability value of 0.000333, which is less than 0.05 (0.000333 < 0.05). Therefore, it can be concluded that the research data is not normally distributed.

The results of the normality test indicated that the data was not normal, so a transformation was performed on the dependent variable (Y) using the square root method (sqrt). This transformation aims to make the residual distribution closer to normal and the regression model meet classical assumptions. The following graph shows the results of the normality test after the data transformation:

Graph 2. Normality Test after Data Transformation

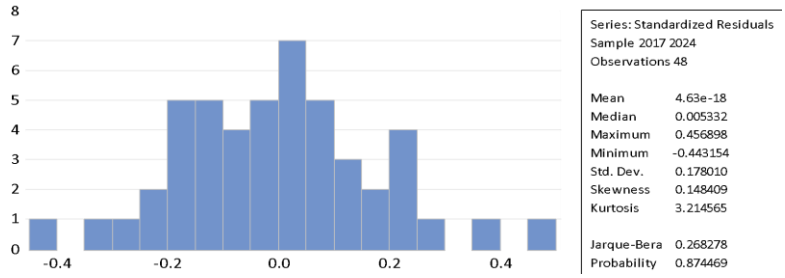

Figure 2. Normality Test After Transformation
Source: Data processed by Eviews 13 researchers

After re-regression with the transformed results, a residual normality test was performed using Jarque-Bera in EViews. The test results showed a probability value of 0.874469, which is greater than 0.05. Thus, the model residuals are normally distributed.

Table 4. Multikolienarity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.040689	41.34983	THAT
X1_CR	0.000339	3.452570	1.449966
X2_DER	0.003365	5.398745	1.790487
X3_THAT	0.021667	13.70114	1.304875
X4_GPM	0.092800	9.527239	1.640516
X5_PBV	0.003483	3.424878	1.185432

Source: Data processed by Eviews 13 researchers

Based on the results of the multicollinearity test, it can be seen that the VIF value is > 0.1 and VIF < 10 so it can be concluded that there is no multicollinearity problem.

Table 6. Heteroscadasticity Test

Heteroskedasticity Test: Glejser			
Null hypothesis: Homoskedasticity			
F-statistic	0.246328	Prob. F(5,42)	0.9393
Obs*R-squared	1.367487	Prob. Chi-Square(5)	0.9278
Scaled explained SS	1.493608	Prob. Chi-Square(5)	0.9138

Source: Data processed by Eviews 13 researchers

Based on the results of the Heteroscedasticity test, the p value indicated by the Prob. chi square (5) value on Obs*R-Squared is 0.9278. Because the p value is 0.9278 > 0.05, the regression model does not show symptoms of heteroscedasticity.

Table 7. Panel Data Regression Analysis

Variable	Coefficien	Std. Error	t-Statistic	Prob.
C	0.725632	0.201716	3.597293	0.0008
X1_CR	0.005377	0.018420	0.291922	0.7718
X2_DER	0.021472	0.058009	0.370147	0.7131
X3_THAT	-0.263113	0.147196	-1.787501	0.0811
X4_GPM	0.341021	0.304630	1.119461	0.2693
X5_PBV	0.221411	0.059014	3.751821	0.0005

Source: Data processed by Eviews 13 researchers

If a variable has a positive regression coefficient, this indicates a directional effect, meaning that if the independent variable increases, the dependent variable will also increase. Meanwhile, a variable with a negative regression coefficient indicates the opposite effect.

Table 8. Analysis of the Coefficient of Determination

R-squared	0.264117
Adjusted R-squared	0.176511

Source: Data processed by Eviews 13 researchers

Based on the estimation results of the panel data regression model, the Adjusted R Square value is 0.176511 or 17.6511%. The coefficient of determination value indicates that the independent variables consisting of CR, DER, TATO, GPM, and PBV are able to explain the stock return variable by 17.6511%, while the remaining 82.3489% is explained by other variables such as technical analysis, market sentiment, macroeconomic conditions, and external factors such as industry trends.

Table 9. t Hypothesis Test (Partial)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.725632	0.201716	3.597293	0.0008
X1_CR	0.005377	0.01842	0.291922	0.7718
X2_DER	0.021472	0.058009	0.370147	0.7131
X3_THAT	-0.263113	0.147196	-1.787501	0.0811
X4_GPM	0.341021	0.30463	1.119461	0.2693
X5_PBV	0.221411	0.059014	3.751821	0.0005

Source: Data processed by Eviews 13 researchers

Degrees of Freedom (Df) = n-k-1 = 48-5-1 = 42, significance level 0.05 (5%) then t table = 2.01808. The variables Current Ratio, Debt to Equity Ratio, Total Asset Turnover, and Gross Profit Margin have a calculated t value that is smaller than the t table value and a significance value of more than 0.05, which indicates no influence. Meanwhile, the Price to Book Value variable has an influence.

Table 10. F Hypothesis Test (Simultaneous)

F-statistic	3.014852
Prob(F-statistic)	0.020534

Source: Data processed by Eviews 13 researchers

The significance value (F-statistic) is less than 0.05, so it can be concluded that the variables Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Gross Profit Margin, Price to Book Value have a significant simultaneous effect on stock returns.

3.2. Discussion

1. Current Ratio

A company's ability to pay its short-term obligations (liquidity) is not a major factor investors consider when determining stock returns. In other words, changes in the level of*Current Ratio*Company performance does not significantly impact investors' return expectations. This may be because investors are more focused on other factors such as revenue growth, long-term profitability, or the overall industry outlook. Investors may also perceive the company's liquidity as adequate, so small changes in CR do not significantly impact their assessment.

2. Debt to Equity Ratio

A company's ability to use debt is not a determining factor in stock returns. Investors appear to have paid little attention to changes in the company's capital structure during the study period. This could be because the market perceives the company's debt level as still within reasonable limits, or because investors are more focused on the company's ability to generate profits regardless of its debt level.

3. Total Asset Turnover

A company's efficiency in utilizing its assets to generate sales is not a primary consideration for investors when determining stock returns. In other words, how quickly a company converts assets into sales does not significantly impact investor return expectations. This may be because investors focus more on the company's profit margin or sales growth, rather than how efficiently assets are used.

4. Gross Profit Margin

A company's ability to generate gross profit from sales is not a determining factor in stock returns. Investors appear to have paid little attention to changes in the company's GPM during the study period. This could be because the market perceives the company's GPM to be stable, or because investors are more focused on other factors such as net profit, revenue growth, or the overall industry outlook.

5. Price to Book Value

A high PBV can attract investor interest because it's considered a sign of good performance and bright prospects for the company, leading to increased demand for shares and a rise in share prices. This sends a positive signal to investors that the company is well-regarded by the market and has high growth potential, thus increasing investor confidence in investing to achieve returns.*return* which is higher.

4. Conclusion

Based on the results of research on the influence of Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Gross Profit Margin, and Price to Book Value on stock returns in household appliances and furniture manufacturing companies, it can be concluded that partially the Price to Book Value variable has a significant effect on stock returns. Conversely, the Current Ratio, Debt to Equity Ratio, Total Asset Turnover, and Gross Profit Margin variables have no effect. Although partially not all variables show a significant effect, simultaneously, the five variables Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Gross Profit Margin, and Price to Book Value have a significant effect on stock returns. This indicates that these factors remain important in influencing investor decisions in investing.

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