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# THE EFFECT OF DER AND RISK ON STOCK RETURN ON CONSUMER GOODS COMPANIES

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**ABSTRACT**

**Background:** In the capital market, the stock price of a company can be used as a measure of whether or not the company's financial performance is good so it can be said that under reasonable and normal conditions, an increase in the financial performance of a company, its share price also increases or increases.

**Aim:** to find out (1) the effect of the Debt to Equity Ratio on Stock Returns in Consumer Goods Companies listed on the Indonesia Stock Exchange in 2016-2019, (2) the effect of Risk on Stock Returns in Consumer Goods Companies listed on the Indonesia Stock Exchange in 2016-2019, and (3) the simultaneous effect of Debt to Equity Ratio and Risk on Stock Returns in Consumer Goods Companies listed on the Indonesia Stock Exchange 2016-2019.

**Method:** This study uses descriptive and verification methods with a quantitative approach.

**Findings:** Based on hypothesis testing using the t-test, it is concluded that the partial debt to equity ratio has a positive and insignificant effect on stock returns, while risk has a positive and significant effect on stock returns. Based on the F test, it is concluded that simultaneously debt to equity ratio and risk have a positive and significant effect on stock returns. Several things can be used as input for investors to pay more attention to the analysis of debt to equity and the systematic risk of the shares to be purchased. So that investors can predict and provide an overview of which stocks will provide returns that are in line with investor expectations.

***KEYWORDS*** *Debt to Equity Ratio (DER); Risk; Stock Return*

## INTRODUCTION

The capital market divides the company's industrial groups according to the sector it manages, one of which is the consumer goods industry (Owolabi & Obida, 2012). The consumer goods industry sector has an important role in triggering the country's economic growth because the goods produced are primary survival needs (Patrick, 1966). The sub-sectors in the consumer goods industry include food and beverages, cigarettes, pharmaceuticals, cosmetics and household goods, and household appliances (Wijayanto & Seno, 2021). This stock is also a stock that is resistant to all kinds of economic conditions, both economic conditions, and critical conditions, because all of them will still need products produced by companies in the consumer goods industry sector such as rice, medicines, soap, cigarettes, etc. Up.

In general, the value of the company is described by the development of the company's share price in the capital market (McConnell & Muscarella, 1985). The higher the stock price of a company, the higher the value of the company. Stock prices in the capital market are influenced by several factors, including the company's overall performance and risks, particularly prospects in the future and the resulting profits (Sudacevschi, 2021). In addition, dividends distributed to shareholders, bank interest rates, and the level of price changes are also considered quite influential.

The company's financial performance describes the company's financial condition and development in achieving company goals (Chen, Jermias, & Nazari, 2021). According to the importance of financial performance includes:

1) Initial screening tool in investment selection.
2) An estimation tool for the results and financial condition of the company.
3) Diagnostic tools for managerial, operational, or other problems.
4) Tools for assessing company management

This shows that financial performance information is an indicator needed by company management to measure the effectiveness of company performance (Hutahayan, 2020). In addition, financial performance information is an indicator used by investors before investing.

Return is one of the factors that motivate investors to dare to take risks. Return and risk are two inseparable factors in considering whether or not an investment is feasible (Asandimitra, Aji, & Kautsar, 2019). Investors generally do not like risk so investors will consider the risks that will be faced before starting to invest. If the investment opportunity has a higher level of risk, the investor will signal a higher level of profit as well (Virlics, 2013).

To predict stock returns, investors use various factors as parameters, one of which is to assess the company's financial performance in making their choice of stock. To measure the company's financial performance used financial ratio analysis (Kariyawasam, 2019). The company's financial ratios can be seen from the aspect of liquidity, leverage or solvency, probability, and market assessment of the company.

Financial ratios are internal factors of the company that affects stock returns. The ratio that is estimated to affect stock returns is the Debt to Equity Ratio (DER). Debt to Equity Ratio is a solvency ratio that describes the company's ability to pay its long-term obligations or obligations if the company is liquidated (Ningsih & Sari, 2019). the loan interest expense to be borne by the management.

Another important part of studying investing is how we measure risk and return. Investors need to pay attention to the influence of these two things. Risk can be interpreted as the possibility of a difference between the actual and expected returns (Powell & Ansic, 1997). It should be understood that it is difficult to separate return (as an investment benefit) and risk. These two things are like two sides of a coin that are always sided by side. There is a correlation between return and risk, as in portfolio theory which states that the higher the return offered by a security instrument, the higher the risk contained in the security concerned (high return high risk) (Beaver, Kettler, & Scholes, 1970). That is, in every expectation in the future investment, there is a potential risk that will occur from the investment concerned. Thus, the relationship between return and risk implied by investors is positive and linear.

## METHODS

The research method that will be used in this research is a descriptive and verification method with a quantitative approach. The research analysis is carried out with a quantitative approach that aims to test the hypothesis. The data used in this research is secondary data. The type of data used is quantitative data, namely data in the form of numbers.

The research will focus on financial reports, especially on reports on debt to equity ratio, risk, and stock returns of consumer goods companies listed on the Indonesia Stock Exchange (Setiawan & Oktariza, 2013). The data analyzed come from consumer goods sector companies listed on the Indonesia Stock Exchange in the period 2016 to 2019, in the form of annual financial statements ending on December 31, 2016, to December 31, 2019.

## RESULTS AND DISCUSSION

### 1. Description of Research Results

### A. Solvency Ratio (DER)

Table 1

Debt to Equity Ratio (DER) OfCostumer Goods Companies 2016-2019 Periode

| Kode Perusahaan | *Debt to Equity Ratio* | | | | Rata-Rata Perusahaan |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | |
| INDF | 1,13 | 0,87 | 0,88 | 0,93 | 0,95 |
| ROTI | 1,28 | 1,02 | 0,62 | 0,51 | 0,86 |
| STTP | 0,9 | 1 | 0,69 | 0,6 | 0,8 |
| ULTJ | 0,27 | 0,21 | 0,23 | 0,16 | 0,22 |
| DVLA | 0,41 | 0,42 | 0,47 | 0,4 | 0,43 |
| KAEF | 0,74 | 1,03 | 1,37 | 1,82 | 1,24 |
| KLBF | 0,25 | 0,22 | 0,2 | 0,19 | 0,21 |
| PYFA | 0,58 | 0,58 | 0,47 | 0,57 | 0,55 |
| TSPC | 0,45 | 0,42 | 0,46 | 0,45 | 0,44 |
| MRAT | 0,32 | 0,31 | 0,36 | 0,39 | 0,35 |
| UNVR | 2,26 | 2,56 | 2,65 | 1,58 | 2,26 |
| **Total** | **8,59** | **8,64** | **8,4** | **7,6** | **8,31** |
| **Rata-Rata** | **0,78** | **0,79** | **0,76** | **0,69** | **0,76** |
| **Maksimum** | **2,26** | **2,56** | **2,65** | **1,82** | **2,26** |
| **Minimun** | **0,25** | **0,21** | **0,2** | **0,16** | **0,21** |

From the table, it can be seen that the sample company that has the highest average debt to equity ratio during the observation period is PT Unilever Indonesia Tbk., which is equal to 2.26 times which is considered not good because it exceeds the industry average of 0.8 times or 80%. Meanwhile, the sample company that during the observation period had the lowest average debt to equity ratio was PT Kalbe Farma Tbk. of 0.21 times which is considered good because it is smaller than the industry average of 0.8 times or 80%. The average debt to equity ratio of all sample companies in the observation period has reached 0.76 times or 95% of the industry average of 0.8 times or 80%. The average value of the debt to equity ratio shows that the debt to equity ratio of the sample companies is considered good because it does not exceed the industry average value.

### B. Risk (Systematic Risk/Beta)

Beta is a measure of systematic risk (systematic risk) of a security or portfolio relative to market risk (Jogiyanto, 2014:406). Beta is a measure of the volatility of the return of a security or the return of a security or portfolio to market returns so the beta is used as a measure of systematic risk.

Table 2
Risk (beta) of Consumer Goods Companies for the 2016-2019 Periode

| Kode Perusahaan | Beta | | | | Rata -Rata Perusahaan |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | |
| INDF | 1,69 | 4,64 | -0,66 | 1,07 | 1,69 |
| ROTI | 0,38 | 2,81 | -1,23 | 0,49 | 0,61 |
| STTP | 0,21 | -0,25 | 1,91 | 2,89 | 1,19 |
| ULTJ | -1,01 | 2,68 | -4,06 | -2,03 | -1,11 |
| DVLA | 1,66 | 2,89 | 0,41 | 0,87 | 1,46 |
| KAEF | 4,81 | 17,08 | -2,99 | 5,99 | 6,22 |
| KLBF | 1,44 | 1,74 | 0,97 | 0,93 | 1,27 |
| PYFA | 1,80 | 6,34 | -1,52 | 1,40 | 2,01 |
| TSCP | 1,42 | 2,66 | 0,39 | 1,08 | 1,39 |
| MRAT | 1,56 | 1,44 | 0,79 | -0,07 | 0,93 |
| UNVR | -0,20 | -0,62 | 2,22 | 3,89 | 1,32 |
| **Total** | **13,76** | **41,40** | **-3,76** | **16,51** | **16,98** |
| **Rata-Rata** | **1,25** | **3,76** | **-0,34** | **1,50** | **1,54** |
| **Maksimum** | **4,81** | **17,08** | **2,22** | **5,99** | **6,22** |
| **Minimun** | **-1,01** | **-0,62** | **-4,06** | **-2,03** | **-1,11** |

Secondary Data processed, 2022

From the table, it is known that the sample company that has the highest average beta value during the observation period is PT Kimia Farma Tbk., amounting to 6.22, which means the beta value is too high for the expected beta criteria, which is usually a beta with a value of > 1 has an increased risk. more significant than the average market risk. While the sample company that has the lowest average beta value during the observation period is PT Ultrajaya Milk Industry Tbk., amounting to -1.11 which means the beta value is too low than the expected criteria, usually stocks with a beta coefficient < 1 move lower than the average market average. The average beta of all sample companies in the observation period has reached 1.54 times 154% of the expected criteria, namely beta < 1. This average value indicates that stock price movements are usually in the same direction as the market, but tend to be more aggressive and can be said to have a risk that is greater than the market average risk level.

**C. Stock Return (Capital Gain/Loss)**

Stated that the return can be in the form of a realized rate of return that has occurred or an expected rate of return that has not yet occurred but is expected to occur in the future. To find out an investment profit and loss, it is necessary to know the capital gain, capital gain itself is the difference in profit/loss from the current investment price relative to the price of the previous period. If the current investment price is higher than the investment price of the previous period, this means that there is a capital gain, otherwise, there will be a capital loss.

Table 3

Stock Return (Capital Gain/Loss) of Consumer Goods Company Periode

| **Kode Perusahaan** | ***Capital Gain/Loss*** | | | | **Rata -Rata Perusahaan** |
|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | |
| INDF | -0,233 | 0,531 | -0,038 | -0,023 | 0,059 |
| ROTI | -0,087 | 0,265 | -0,203 | -0,059 | -0,021 |
| STTP | 0,047 | 0,058 | 0,367 | -0,14 | 0,083 |
| ULTJ | 0,06 | 0,158 | -0,717 | 0,042 | -0,114 |
| DVLA | -0,231 | 0,35 | 0,117 | -0,01 | 0,056 |
| KEEP | -0,406 | 2,161 | -0,018 | -0,037 | 0,425 |
| KLBF | -0,279 | 0,148 | 0,116 | -0,101 | -0,029 |
| PYRA | -0,17 | 0,786 | -0,085 | 0,033 | 0,141 |
| TPSC | -0,389 | 0,126 | -0,086 | -0,228 | -0,144 |
| MART | -0,406 | 0,01 | -0,019 | -0,131 | -0,137 |
| UNVR | 0,146 | 0,049 | 0,441 | -0,188 | 0,112 |
| **Total** | **-1,95** | **4,64** | **-0,13** | **-0,84** | **0,43** |
| **Rata-Rata** | **-0,18** | **0,42** | **-0,01** | **-0,08** | **0,04** |
| **Maksimum** | **0,15** | **2,16** | **0,44** | **0,04** | **0,43** |
| **Minimun** | **-0,41** | **0,01** | **-0,72** | **-0,23** | **-0,14** |

Secondary Data processed, 2022

From the table, it is known that the sample company that has the highest average stock return during the study period is PT Indofarma Tbk., amounting to 6,673. While the sample company that has the lowest average value of stock returns during the study period is PT Pyridam Farma Tbk., amounting to -0.141. The average stock return of all sample companies in the observation period has reached 0.04 times or 33.3% of the JCI average per year of 12%. Average value. This average stock return shows that the stock returns of the sample companies are considered quite good because they are close to the average value of the JCI per year.

## CONCLUSION

The average debt to equity ratio of all sample companies in the observation period has reached 0.76 times or 95% of the industry average, this value is considered good because it does not exceed the industry average value and has also reached the expected debt to equity ratio. The average beta of all sample companies in the observation period has reached 154% of the expected criteria, namely beta < 1, this value indicates the stock is too aggressive and has high risk and also exceeds the expected beta criteria. The average stock return of all sample companies in the observation period has reached 33.3% of the average JCI per year, considered quite good because it is close to the average value of the JCI per year and has also exceeded the expected stock returns.

Partially, the debt to equity ratio has a positive and insignificant effect on stock returns in Consumer Goods Companies listed on the Indonesia Stock Exchange for the 2016-2019 period. Partially beta has a positive and significant effect on stock returns in Consumer Goods Companies listed on the Indonesia Stock Exchange for the 2016-2019 period. Simultaneously (Mujiatun, Rahmayati, & Ferina, 2021). Debt to Equity Ratio and Beta have a positive and significant effect on the dependent variable, namely stock returns in Consumer Goods Companies listed on the Indonesia Stock Exchange for the 2016-2019 period.

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