

## The Effect of Financial Ratio and Exchange Rate on Stock Return

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### Abstract

This study aims to test whether there is a relationship between financial ratios and the exchange rate on stock returns. Data taken from IDX is a transportation sub-sector company during 2017-2019. Analysis was performed using multiple linear regression analysis. The results of this study indicate that financial ratios such as Return on Assets and Debt to Equity Ratio have a positive impact on stock returns. The Exchange Rate variable has a negative impact on Stock Return. Meanwhile, the Current Ratio and Price Earning Ratio do not contribute to an increase or decrease in Stock Returns. The implications of this study indicate that this research can be used as a reference that profitability can be used as a guide for investors in investing their funds. In addition, the current ratio cannot be used as a reference that a company with a high current ratio will also have a high stock return

**Keywords:** Return On Assets, Debt to Equity Ratio, Current Ratio, Price Earning Ratio, Exchange Rate and Stock Return.

### 1. Introduction

#### 1.1 Research Background

The Indonesian capital market, which is incorporated in the Indonesia Stock Exchange (IDX), is a means or media for companies that have gone public in publicizing their companies to interested parties. The purpose of publication of financial reports for companies is to seek investors as contributors of funds or capital to increase the expansion of company operations.

Shareholders in investing in the companies that go public they choose, really hope to get a dividend share of the company's profits which is a reciprocal or consequence that will be received by investors investing in the company.

Before making an investment selection in a company, it is very important for investors to know the condition of the company's performance. Because knowing the company's performance in carrying out its activities related to the progress of the company's financial health can provide confidence for investors to invest their capital. The higher the quality of a published financial report, the higher the confidence of investors to invest in the company, which has only a few deviations and vice versa (Biddle et al., 2009)

As one of the analytical techniques to determine performance and estimate the return that will be obtained to estimate the continuity and prospects of the company in the future, investors will use fundamental analysis. This analysis describes the company's growth in generating profits in the future (Basalama et al., 2017).

The return that investors want is of course a stable and high return and according to expectations. Therefore, investors need to be careful when investing in a company and one of them is by analyzing the company's performance, namely fundamental analysis. High returns will not always be followed by high risks, so this creates uncertainty for investors to estimate stock returns (Won et al., 2019).

One of the factors that causes stock returns to be difficult to predict is the fluctuation or ups and downs of stock price movements that affect stock returns so quickly. Knowing the condition of the performance of a company going public is very important for investors before investing their capital.

There are several variables in evaluating company performance that investors should pay attention to before investing, including the Current Ratio. This ratio describes the company's performance in settling short-term liabilities by utilizing current assets owned by the company. The higher this ratio, the greater the short-term debt that can be guaranteed by its current assets.

Apart from the Current Ratio, there is a variable that most influences stock returns, namely Return On Assets (ROA). Return On Assets (ROA) is a profitability ratio where this ratio describes a company's ability to utilize its assets while operating its business and this ratio will be a reflection of the results or returns provided by the company to shareholders. If Return On Assets (ROA) continues to increase, it means that it can be assumed that the company's performance in managing its assets to obtain profits is very good. Therefore, the higher the level of ROA, the higher the stock returns that will be obtained by investors (Dewi, 2016)

The next variable is the Debt to Equity Ratio (DER). DER is one of the solvency ratios, namely the ratio used to measure the performance of a company in paying off short-term and long-term obligations using its own capital. If the DER ratio is too large, it will make investors assume that the company is too dependent on debt as the main funding to operate the business so that

conditions like this will have an impact on the company's ability to provide high returns to investors.

Apart from Current Ratio, Return On Assets, and Debt to Equity Ratio, there are other variables that are of concern to investors before investing in a company. This variable is the Price Earning Ratio (PER), this ratio is one of the investment ratios to measure market price to share price divided by the acquisition of these shares or earnings per share (EPS).

The Price Earning Ratio (PER) is an important consideration for investors, because it is from this market ratio that investors can find out how high the return will be obtained at the stock price set by the company. Devi (2019) suggested that investors use PER as the main fundamental analysis based on three things, namely, the value of a stock can be estimated by PER, then the earnings obtained by investors are basically used by companies to pay stock returns, thirdly there is a link between earnings and stock price. Every one rupiah price of the company's earnings is reflected by the PER itself.

From previous research there are still inconsistencies, namely that it is still rare to research other variables apart from the four variables already mentioned, namely Current Ratio, Return On Assets, Debt to Equity Ratio, and Price Earning Ratio. Therefore, researchers add other variables that may be one of the factors that influence a return from a company.

In this study, specifically examines the transportation sub-sector company which is one of the company sectors that contributes a lot to national development, namely 5.18% for gross domestic product (GDP) in 2016 and experienced an increase of 7% in 2017 for the average growth of the transportation sector (Okezone Finance, 2017). Most of the transportation companies also use foreign currency in presenting their financial statements. Therefore, the Exchange Rate variable or exchange rate is one of the additional independent variables that will be examined in this study as an added value to this research.

The Exchange Rate is an important component because this variable analyzes the economic condition of the company externally, namely the condition of the rupiah exchange rate against foreign currencies, especially the US Dollar. The rupiah exchange rate is not always stable, there are times when it experiences a decline or depreciation against foreign currencies due to the impact of inflation. This of course makes investors assume that if the economic conditions in Indonesia are not good, then most investors will sell the shares of the company again which leads to a decrease in the return on the company's shares.

With various opinions regarding the assessment of company financial performance on stock returns, researchers feel the need to conduct research on the effect of Return On Assets (ROA), Debt to Equity Ratio (DER), Current Ratio (CR), Price Earning Ratio (PER) and Exchange Rate on stock returns.

### *1.2 Literature Review*

#### *Stock Return*

Hartono (2014) argued that the results obtained from investment are returns. Realized return and expected return are two types of stock returns. Return realization places more emphasis on returns that have occurred and are obtained from historical data. While the expected return is still in the form of expectations from investors regarding the amount of return to be received in the future.

The main components in stock returns are capital gains or losses and yields. Decreases and increases or fluctuations in the price of a stock can determine whether investors will gain or lose on these shares, this is called a capital gain or loss. Meanwhile, yield is a reflection of the income earned by investors on a regular basis from ownership of shares (Tandelilin, 2001).

So, stock returns are profits obtained by investors from investments made in a company and stock returns consist of two components, namely capital gains and yields. The reciprocity of the stock return itself is that investors get profits in the form of dividends from the company.

#### *Signaling Theory*

Besley et al., (2008: 517) suggested that, the company gives a signal regarding the steps that will be taken by management and shows investors about company management in managing the company's prospects.

Hartono (2012) argued that if a company publishes information then this information will be a signal for investors in making investment decisions. Information that has a positive value is expected by the market to react immediately when the market has received this information. Meanwhile, Gallagher & Andrew (2007: 469) argued that the premise underlying the signaling theory is that investors or shareholders do not have much knowledge or information about the company's financial performance in the future, therefore fluctuations or fluctuations in dividends will be considered as 'signals' by shareholders. Company managers who believe in this theory will realize that dividend decisions are able to bring information to investors.

From several understandings based on experts, it can be concluded that signal theory is a theory about how a company conveys information that is useful to external parties, such as investors where this information will be needed as a decision making whether investors still want to invest in that company based on the information presented. And, especially, the factor that the delivery of dividend decisions can influence shareholders will realize that if there is a decrease in dividends, investors will perceive the company's financial performance as not good and will have an impact on the company's stock returns.

### *1.3 Hypothesis Formulation*

#### *Effect Return On Assets (ROA) on Stock Return*

Return On Assets is one of the financial ratios used to measure how far a company manages its assets to generate profits for the company. The high Return On Assets of a company, it can be concluded that the company was successful in obtaining a return on the assets it managed for one accounting period.

High Return On Assets also illustrates the effectiveness of the company, because the company is able to manage its assets properly so that the company earns increased profits. When viewed from an investor's point of view, of course a company with a high Return On Assets will attract investors to own shares in the company because the profitability of the company is high and investors can know that the company's performance is good in operating its business to generate profits because it is supported by the number of high Return On Assets.

The results of research from Yuliaratih & Artini (2018) stated that Return On Assets (ROA) had a positive and significant effect on stock returns. Return on assets that have increased will be followed by high stock returns as well. Research with the same results was also put forward by Dewi (2016) and Parwati and Sudiarta (2016), and Haryani & Priantina (2018) which stated that Return On Assets has a positive influence on stock returns.

The consequences of Return On Assets that have a positive effect on stock returns and have an impact on company shares will increase significantly so that stock prices will increase which of course will be followed by high stock returns as well. Therefore, researchers want to take the hypothesis:

H1: Return On Assets (ROA) has a positive effect on Stock Returns

*Effect Debt to Equity Ratio (DER) on Stock Return*

Debt to Equity Ratio is a solvency ratio, or a financial ratio that is used to measure how far a company's capital capability is in settling the company's debt.

Debt is used as one of the company's capital supports, of course there is a fairly high risk for the company because if the company uses too much debt in high amounts, it will have an impact on the company's performance which is considered unfavorable by the public.

The higher the number of Debt to Equity Ratio (DER) of a company, indicates more turnover of assets carried out by the company with the aim of obtaining profits from utilizing debt provided by creditors. From this, the company can make creditors believe in the company's financial performance because the company is able to manage the debt that is lent as a source of profit.

Research from Haryani & Priantina (2018) found that the Debt to Equity Ratio (DER) has a positive and significant effect on stock returns, which is based on the theory of high risk - high return if the risk level of a company is reflected by the DER of that company. The results of this study are also in line with research from Sudarsono & Sudiyatno (2016) and Basalama et al., (2017) which both suggested that DER has a positive and significant effect on stock returns.

If the company is able to manage debt and make the debt profitable, this will certainly attract investors to invest in the company and this will result in an increase in the company's stock price followed by the company's stock return as well. Therefore, researchers want to take the hypothesis:

H2: Debt to Equity Ratio (DER) has a positive effect on Stock Returns

*Effect Current Ratio on Stock Return*

Current Ratio is a liquidity ratio or one of the financial ratios that measures a company's ability to pay off debt or other short-term obligations with the company's current assets. How liquid a company is can be seen from the amount of its current ratio.

If the company is able to manage its current assets properly, and can settle debts or short-term obligations from these current assets without experiencing maturity, then the company can be said to be liquid.

If the company has the ability to pay off its short-term debts well, then this shows that the company is managing its business well so that it will reduce the risk for investors who want to own the company's shares.

The results of research conducted by Dewi (2016) stated that the Current Ratio had a positive and significant effect on stock returns. This indicates that the higher the current ratio, indicating a company has a good ability to be responsible for its obligations. The results of research from Pramadani (2019), Zulkifli (2020), and Parwati and Sudiarta (2016) also stated that the Current Ratio had a positive effect on stock returns.

If the company has a good ability to pay off its short-term debt, then this will have consequences for the company, namely the company's stock price will increase and of course followed by stock returns which will also increase because investors are interested in investing in the company. Therefore, researchers want to take the hypothesis:

H3: Current Ratio (CR) has a positive effect on Stock Returns

*Effect Price Earning Ratio (PER) on Stock Return*

One of the indicators that must be considered in investing in the capital market is the Price Earning Ratio (PER). PER itself is a comparison between stock prices in the capital market and Earning Per Share (EPS) of each company (Bakhtiar & Saryadi, 2017).

The growth of earnings generated by each share of the company will determine how the company develops in the future. Therefore, if the company's PER ratio increases, then the company's shares can generate high stock returns as desired by investors.

The results of research from Zulman & Dirvi (2019) show that PER has a positive and significant effect on stock returns, because an increased PER will also be followed by high stock returns. Investors also use PER to measure a company's ability to generate earnings as seen from the development of the capital market. The results of this study are also in line with research from Asia (2020), Devaki (2017), Dewi (2016), and Parwati and Sudiarta (2016). Therefore, researchers want to take the hypothesis:

H4: Price Earning Ratio (PER) has a positive effect on Stock Returns

*Effect Exchange Rates on Stock Return*

Exchange rates are comparisons between domestic currencies reflected in other countries' currencies. If the domestic currency or rupiah depreciates, this will have a negative impact on the company, especially for companies whose raw materials and most of them operate abroad, such as companies in the transportation sector, will become more expensive.

When the foreign currency, in this case, the US Dollar strengthens against the Rupiah, the company must make price adjustments for its goods and services. For foreign investors who invest their capital, this certainly makes investors think that the stock prices of companies in Indonesia are declining so that stock returns will not be high either (Tandelilin, 2010: 344).

The results of research from Yuliaratih & Artini (2018) show that the Exchange Rate has a negative and significant effect on stock returns. The rupiah exchange rate has depreciated or decreased against foreign currencies, in this context the US Dollar will have a negative impact on the capital market, because stock returns on the capital market are weakening, thus making foreign investors reluctant to invest in companies whose stock returns are not good because of the effect of the weakening rupiah exchange rate. The results of this study are in line with research from Suriyani & Sudiartha (2018), Ratih & Candradewi (2020) and Devi (2019) which state that the exchange rate or exchange rate has a negative effect on stock returns. Therefore, researchers want to make a hypothesis:

H5: Exchange Rate has a negative effect on Stock Returns

## **2. Method**

This research is a quantitative research that places more emphasis on assumptions that will be determined by variables and then these assumptions will be analyzed using valid research methods (Sudjana, 2001).

Independent variables and dependent variables in this study include: Stock Return (Y) as an independent variable, Return On Assets (H1), Debt to Equity Ratio (H2), Current Ratio (H3), Price Earning Ratio (H4) and Exchange Rate (H5) as the dependent variable. The population in this study are transportation sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period using a purposive sampling method.

This study uses multiple linear regression analysis techniques to determine the effect of each independent variable on the dependent variable. The data analysis test tool used was the SPSS version 26 application. Descriptive statistical tests, classic assumption tests, coefficient of determination, partial tests, model feasibility tests and hypothesis testing were carried out in this study.

## **3. Research Results and Discussions**

### *3.1 Descriptive Statistics Test*

In the descriptive statistical test, this test provides a descriptive description of the sample data. What is explained in the descriptive statistics include the mean, maximum, minimum, mean, and standard deviation. The results of descriptive statistics from this study can be seen in the table below:

Table 1. Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
<i>Return On Asset</i>	60	-1.02	0.23	-0.51	0.18
<i>Debt to Equity Ratio</i>	60	-7.94	82.37	2.09	10.86
<i>Current Ratio</i>	60	0.06	421.99	10.61	57.52
<i>Price Earning Ratio</i>	60	-0.37	1.60	0.07	0.30
<i>Exchange Rate</i>	60	0.98	0.99	0.99	0.00
<i>Stock Return</i>	60	-0.89	2.09	-0.35	0.42
Valid N (listwise)	60				

Based on the table above, it can be seen that the variable Return On Assets has the lowest score (minimum) of -1.02 while the maximum value of Return On Assets is 0.23. Then for the Debt to Equity Ratio variable, it can be seen that the DER variable has the lowest (minimum) score of -7.94 while the maximum Debt to Equity Ratio is 82.37.

Current Ratio variable, it can be seen that the CR variable has the lowest (minimum) score of 0.06 while the maximum Current Ratio value is 421.99. The Price Earning Ratio variable can be seen that the PER variable has the lowest (minimum) score of -0.37 while the maximum value of the Price Earning Ratio is 1.60.

The Exchange Rate variable can be seen that the Exchange Rate variable has the lowest (minimum) score of 0.98 while the maximum Exchange Rate value is 0.99. The Stock Return variable can be seen that the Stock Return variable has the lowest (minimum) score of -0.89 while the maximum value of stock return is 2.09.

### 3.2 Classical assumption test

The classical assumption test in this study is, among other things, the normality test. The normality test is used to test whether the regression model has a normal distribution or not.

#### a. Normality test

The normality test in this study was carried out by the Kolmogorov-Smirnov test. The results of the normality test can be seen in the table below:

Table 2. Kolmogorov-Smirnov Normality Test Results

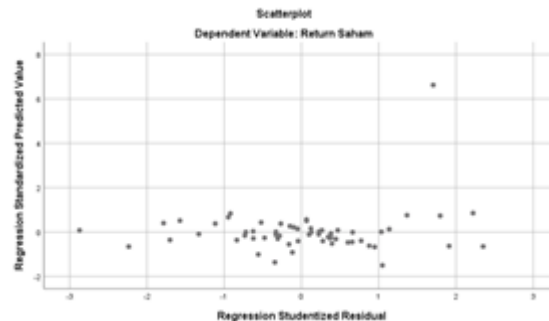
Asymp.Sig. (2-tailed)	Result
0.200	Normally distributed

From the table above, the Asymp.Sig value is obtained. (2-tailed) of 0.200. These results can be concluded that the residual data in the regression model has been normally distributed because the Asymp.Sig value. (2-tailed) is greater than 0.05.



*b. Heteroscedasticity Test*

The heteroscedasticity test is needed to find out and test if the regression model has an unequal variance from the residual data. To test heteroscedasticity, namely by testing the scatterplot graph, if the points on the graph are spread randomly and are below the number 0 and the Y axis, then it is certain that there is no heteroscedasticity in the regression model. The results of the heteroscedasticity test are described in the figure below:



From the results of the heteroscedasticity test in the figure above, and as depicted in the scatterplot graph, it can be seen that the points spread randomly both above and below the number 0 and the Y axis. So it can be concluded that there is no heteroscedasticity in the research regression model.

*c. Multicollinearity Test*

The multicollinearity test was used to test whether the regression model found a correlation between the independent variables. The multicollinearity test was analyzed by looking at the tolerance value and the Variance Influence Factor (VIF), if the tolerance value is more than 0.10 or the VIF value is less than 10, then there is no multicollinearity in the research regression model. The table below is the results of the multicollinearity test:

Table 3. Multicollinearity Test Results

Model	Tolerance		multicollinearity Assumption
	Tolerance	VIF	
<i>Return On Assets</i>	.374	2.675	no multicollinearity
<i>Debt to Equity Ratio</i>	.903	1.108	no multicollinearity
<i>Current Ratio</i>	.398	2.513	no multicollinearity
<i>Price Earning Ratio</i>	.964	1.037	no multicollinearity
<i>Exchange Rate</i>	.936	1.068	no multicollinearity

Based on the results of the multicollinearity test in the table above, it can be seen that the tolerance and VIF values are greater than 0.10 and less than 10. So it can be concluded that there is no multicollinearity in the regression model of this study.

*d. Autocorrelation Test*

The autocorrelation test is used to test if in the regression model there is a correlation between the t period and the t-1 period or the previous period. Autocorrelation test using the Durbin-Watson test whose results are in the table below:

Table 4. Autocorrelation Test Results

<i>Durbin-Watson</i>
1.874

In the Durbin-Watson table, the upper limit value (du) is 1.76. The Durbin-Watson value is 1.874 which is greater than the upper limit (du) 1.76 and less than 4-1.76 (2.23), so it can be concluded that there is no autocorrelation in this study.

*3.3 Multiple Regression Analysis*

The results of multiple regression analysis on the effect of Return On Assets, Debt to Equity Ratio, Current Ratio, Price Earning Ratio and Exchange Rate on Stock Returns are described in the table below:

Table 5..Results of Multiple Linear Regression Analysis

Variable	Coefficient Regression
Konstanta	25.268
<i>Return On Asset</i>	0.711
<i>Debt to Equity Ratio</i>	0.021
<i>Current Ratio</i>	0.001
<i>Price Earning Ratio</i>	-0.116
<i>Exchange Rate</i>	-25.567

Based on the results of multiple regression analysis in the table above, the regression equation is obtained as follows:

$$Y = 25.268 + 0.711X_1 + 0.021X_2 + 0.001X_3 - 0.116X_4 - 25.567X_5$$

1. Constant (A)

In the regression equation, a constant value of 25.268 is obtained which can be interpreted if the independent variables namely return on assets, debt to equity ratio, current ratio, price earning ratio and exchange rate do not change or are constant, then the stock return will be 25.268.

2. Regression Coefficient of Return on Assets (B1)

The regression coefficient of return on assets is 0.711 which indicates that if the variable return on assets increases, stock returns will increase and vice versa, assuming other independent variables are constant.

3. Debt to Equity Ratio (B2) Regression Coefficient

The regression coefficient for the debt to equity ratio is 0.021 which means that if the variable debt to equity ratio increases by 0.021, stock returns will increase and vice versa, assuming the other independent variables are constant.

4. Current Ratio Regression Coefficient (B3)

The current ratio regression coefficient is 0.001, which means that if the current ratio variable increases, stock returns increase and vice versa, assuming other independent variables are constant.

5. Price Earning Ratio Regression Coefficient (B4)

The price earning ratio regression coefficient is -0.116, which means that if the price earning ratio variable decreases, stock returns will decrease, assuming the other independent variables are constant.

6. Exchange Rate Regression Coefficient (B5)

The exchange rate regression coefficient is -25.567, which means that if the exchange rate variable decreases, stock returns will decrease, assuming the other independent variables are constant.

3.4 Determination Coefficient Test (Adjusted R Square)

The coefficient of determination test is needed to find out how much influence the independent variables have on the dependent variable. The value of the coefficient of determination is determined from 0 to 1, the closer to 1, the greater the contribution of the independent variable to the dependent variable. The results of the test for the coefficient of determination are shown in the table below:

Table 6. Determination Coefficient Test Results (Adjusted R Square)

<i>Adjusted R Square</i>	Result
0.523	The dependent variable is influenced by the independent variable by 52.3%

Based on the results of the table above, the Adjusted R Square from the analysis results obtained is 0.523, which means that the independent variables namely Return On Assets, Debt to Equity Ratio, Current Ratio, Price Earning Ratio and Exchange Rate jointly affect the dependent variable, namely the stock return of 52.3% and the remaining 47.7% is influenced by variables or other factors outside the research.

*3.5 Partial Test (t test)*

The t test aims to determine how much influence the independent variables have on the dependent variable individually. The results of the analysis of the coefficient of determination are presented in the table below:

Table 7. Results of Partial Test Analysis (Test t)

Model	Unstandardized Coefficients B	Sig.	Result of Hypothesis Testing
(Constant)	25.268	.048	
<i>Return On Asset</i>	.711	.047	Accepted
<i>Debt to Equity Ratio</i>	.021	.000	Accepted
<i>Current Ratio</i>	.001	.382	Rejected
<i>Price Earning Ratio</i>	-0.116	.390	Rejected
<i>Exchange Rate</i>	-25.567	.048	Accepted

1. First Hypothesis Testing

Testing this hypothesis is done by testing the significance of the regression coefficient of the ROA variable. The magnitude of the ROA coefficient is 0.711 with a significance value of 0.047. With a significance level of  $\alpha = 5\%$ , the ROA regression coefficient is significant because  $0.047 < 0.05$ . Therefore, it can be concluded that ROA has a positive and significant effect on stock returns, so the first hypothesis of this study is accepted.

2. Second Hypothesis Testing

Testing this hypothesis is done by testing the significance of the regression coefficient of the DER variable. The magnitude of the DER coefficient is 0.021 with a significance value of 0.000. At a significance level of  $\alpha = 5\%$ , the regression coefficient of the DER variable is significant because  $0.000 < 0.05$  and it can be concluded that DER has a positive and significant effect on stock returns, therefore the second hypothesis of this study is accepted.

3. Testing the Third Hypothesis

Testing the third hypothesis was carried out by testing the significance of the regression coefficient of the CR variable. The magnitude of the CR coefficient is 0.001 with a significance value of 0.382. At a significance level of  $\alpha = 5\%$ , the regression coefficient CR is  $0.382 > 0.05$  so it can be concluded that CR has no effect on stock returns and the third hypothesis of this study is rejected.

**4. Testing the Fourth Hypothesis**

Testing the fourth hypothesis was carried out by testing the significance of the regression coefficient of the PER variable. The magnitude of the PER coefficient is -0.116 with a significance value of 0.390. With a significance level of  $\alpha = 5\%$ , the regression coefficient PER is  $0.390 > 0.05$ , so it can be concluded that PER has no effect on stock returns and the fourth hypothesis of this study is rejected.

**5. Fifth Hypothesis Testing**

Testing the fifth hypothesis was carried out by testing the significance of the regression coefficient of the Exchange Rate variable. The magnitude of the Exchange Rate coefficient is -25,567 and a significance value of 0.048. With a significance level of  $\alpha = 5\%$ , the regression coefficient of the Exchange Rate is  $0.048 < 0.05$  so it can be concluded that the Exchange Rate has a negative and significant effect on stock returns and the fifth hypothesis of this study is accepted.

**3.6 Model Feasibility Test (Test F)**

The F test is used to determine the feasibility of the regression model that has been made. Testing is done by comparing the F-table value with the calculated F-value. The table below is the result of the F-test:

Table 8. Model Feasibility Test Results (Test F)

F-count	Sig.
11.837	.000

Based on the table above, it is known that the F-count value is 11,837, then the study uses 5 independent variables ( $df1 = 5$ ) and uses 60 samples ( $n$ ) so that,  $DF2 = 54$  then in the F test table the F-table value is 2.3861. From this value it can be concluded that the F-count  $>$  F-table value is  $11.837 > 2.3861$ , so this regression model is significant so this model is feasible to use.

**4. Discussion of Research Results**

**4.1 Effect of Return On Assets on Stock Returns**

The results of this study support the first hypothesis which states that Return On Assets (ROA) has a positive effect on Stock Returns because the significance value with the t statistic is 0.047. Because  $0.047 < 0.05$ , then H1 is accepted. So it can be concluded that there is a partial effect of Return On Assets on Stock Returns.

The results of this study support the results of research from Haryani & Priantinah (2018) whose results showed that Return On Assets has a positive effect on stock returns. The results of other studies such as Parwati and Sudiarta (2016), Ratih & Candradewi (2020), Dewi (2016) and Yuliaratih & Artini (2018).

This study shows that Return On Assets (ROA) has positive effect on stock returns in transportation sector companies, which means that companies with high Return On Assets (ROA) values, the company is successful in achieving the targeted profit on the assets it uses during one accounting period.

The value of Return On Assets (ROA) which has a high level also reflects how good the effectiveness of the company is because the company is successful in using its assets properly so that the company obtains the profit that has been targeted. According to Haryani & Priantinah (2018), a company with good profitability will have an impact on investors who want to become a shareholder of the company. Because investors believe they will obtain high returns and make investors satisfied.

According to Parwati & Sudiarta (2016), increased ROA has an impact on higher company performance and the company will get good feedback from both the capital market and investors who are interested in owning shares in the company. This is the impact as the company's stock price soared up. This is consistent with the signaling theory, because with an increased ROA, this information gives a signal to investors that the company has succeeded in managing its assets properly and effectively.

#### *4.2 Effect of Debt to Equity Ratio on Stock Returns*

The results of this study support the second hypothesis which states that the Debt to Equity Ratio has a positive effect on Stock Returns where the significance value with the t statistic is 0.000. Because  $0.000 < 0.05$ , then H2 is accepted. Therefore, it can be concluded that there is a partial effect of the Debt to Equity Ratio variable on Stock Returns.

The results of this study are supported by the results of research from Haryani & Priantinah (2018), Sudarsono & Sudyatno (2016) and Purwitajati & Dwiana (2016) whose results showed that the Debt to Equity Ratio has a positive effect on stock returns.

A company with a good Debt to Equity Ratio (DER) means that the company manages the debts given by the creditors properly and efficiently so as to produce more and more company asset turnover and will generate profits for the company.

Creditors assume that the company's performance is stable and the company is able to generate operating profit from the debt provided. And this will certainly have an impact on increasing company value, and have an impact on investors who are interested in investing in the company. This is related to signaling theory, that a large company DER indicates that the company manages its debts well so that it produces more assets and the company will earn high profits, therefore investors will be interested in investing in the company.

#### *4.3 Effect of Current Ratio on Stock Return*

The results of this study do not support the third hypothesis which states that the Current Ratio has a positive effect on Stock Return where a significance value with the t statistic obtains a value of 0.382. because  $0.382 > 0.05$ , then H3 is rejected. So it can be concluded that there is no influence from the Current Ratio variable on Stock Returns.

The results of this study are in line with the results of research from Basalama et al., (2017), Tumonggor et al., (2017) and Malinggato et al., (2018) which stated that the Current Ratio has no effect on Stock Returns.

The higher the Current Ratio (CR) or the lower the Current Ratio (CR) of a company will not affect the company's stock return. The Current Ratio itself consists of cash, receivables and inventories where these accounts are part of the company's financial statements. Investors tend to look at other financial ratios such as profitability, solvency.

In signaling theory, with the results stating that the Current Ratio has no effect on Stock Returns because information related to the Current Ratio will not affect the company's Stock Returns to investors, so investors will not consider the Current Ratio variable before investing and from the company's point of view, the company cannot provide signals related to Current Ratio information because this variable has no effect on Stock Returns.

#### *4.4 Effect of Price Earning Ratio on Stock Return*

The results of this study do not support the fourth hypothesis which states that the Price Earning Ratio has a positive effect on Stock Return where a significance value with the t statistic obtains a value of 0.390. Because  $0.390 > 0.05$ , then H4 is rejected. Therefore, it can be concluded that there is no influence from the Price Earning Ratio variable on Stock Returns.

The results of this study are in line with the results of research from Ghofir (2020) and Mayuni & Suarjaya (2018) which stated that the Price Earning Ratio (PER) had no effect on Stock Returns.

Osaretin & Ojeme (2018) stated that there are many factors that influence fluctuations in the PER ratio. Therefore, investors need to pay more attention to the PER of a company because the low return that will be obtained by investors can be reflected by the value of the PER itself.

Devi (2019) stated that if the PER value increases, stock returns would be affected and a decrease will occur. Some investors assume that a company with a PER value that is too high reflects a stock price that is becoming expensive so that it will have an impact on reducing investor purchasing power.

In signaling theory, with the results stating that the Price Earning Ratio has no effect on Stock Return, this indicates that information related to the Price Earning Ratio will not affect the company's Stock Return to investors, so that investors will not consider the Price Earning Ratio variable before investing and from on the company side, the company cannot provide signals related to information on the Price Earning Ratio because this variable has no effect on stock returns.

#### *4.5 Effect of Exchange Rate on Stock Return*

The results of this study support the fifth hypothesis which states that the Exchange Rate has a negative effect on Stock Returns where the significance value with the t statistic obtains a value of 0.048. Because  $0.048 < 0.05$ , then H5 is accepted. So it can be concluded that there is a partial effect of the Exchange Rate variable on Stock Returns.

The results of this study are in line with the results of research by Devi (2019), Ratih & Candradewi (2020), Suriyani & Sudiarta (2018) and Yuliaratih & Artini (2018) which stated that the Exchange Rate has a negative effect on stock returns.

The exchange rate which has a negative effect on stock returns in transportation sector companies is indicated by the condition of the rupiah exchange rate at that time, namely from 2017-2019 it was experiencing a decline because the rupiah exchange rate was at a nominal value of 13,370.26 to the US Dollar. Thus, companies with investors who are mostly foreign investors will be more careful because at that time the rupiah exchange rate was unstable and they preferred to invest in dollars.

Tandelilin (2010: 344) stated that when foreign currencies strengthen against the rupiah, companies must adjust the prices of their goods and services. For foreign investors who invest their capital, this certainly makes investors think that stock prices in Indonesia are declining so that stock returns will not be high either.

Related to the signaling theory, companies with foreign investors will provide information signals that the rupiah exchange rate is experiencing a decline so that foreign investors will be more careful in investing when the rupiah exchange rate is unstable and will choose to invest their capital in the dollar exchange rate.

## **5. Conclusion**

The results of this study show evidence that the higher the level of Return On Assets (ROA) and the Debt to Equity Ratio (DER), the higher the stock return of a transportation company. However, on the contrary, that the lower the exchange rate will actually increasingly affect the magnitude of stock returns. Other variables such as Current Ratio and Price Earning Ratio in this study do not find a significant association with stock returns.

## **6. Research Limitations**

In this study there are several limitations that can affect the results of the study. In this study the research period was relatively short, namely only three periods, from 2017 to 2019, so that the data that was processed and retrieved may still not reflect the company's condition in the long term. Then, the company's financial ratios are only represented in 5 financial ratios, namely Return On Assets, Debt to Equity Ratio, Current Ratio, Price Earning Ratio and Exchange Rate.

## **7. Suggestion**

In the interest of expanding relevant or the same topics for further research, this research can be used as a reference for studies or research related to relevant topics so that further research is advised to increase the number of company samples more so that the research results obtained can represent the overall condition. Then, future researchers are expected to add other financial ratios and the research period so as to obtain a more detailed picture of the condition of the company and the capital market.

## **8. Implications**

The results of this study can be used as a reference that profitability can be used as a guide for investors in investing their funds. In addition, the current ratio cannot be used as a reference that a company with a high current ratio will also have a high stock return.



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