THE EFFECT OF CASH FLOWS, ACCOUNTING PROFIT, AND NET PROFIT MARGIN ON SHARE RETURN: A STUDY AT TELECOMMUNICATION COMPANIES LISTED IN INDONESIA STOCK EXCHANGE 2009-2014

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ABSTRACT

This study aimed to determine whether there was significant effect changes of cash flows, accounting profit, and net profit margin toward share return. This study used a sample of five telecommunication companies listed on the Indonesia Stock Exchange (BEI), which were selected using purposive sampling technique. The data used in this research was secondary data obtained from annual financial statements published in the Indonesia Stock Exchange from 2009-2014. The results revealed that accounting profit have significant effect on share returns partially. Meanwhile, cash flow, and net profit margin do not have a significant effect on share return partially. The results also showed that the cash flows, accounting profit, and net profit margin simultaneously have a significant effect on share returns.

Keywords: Cash Flow, Accounting Profit, Net Profit Margin, Share Return, Investment Decision

INTRODUCTION

Background of The Study

The development of technology has grown massively in recent years. This phenomenon encourages many investors to invest a large amount of funds in technology industry. The technology industry especially in telecommunication industry in Indonesia has
attracted both of local investors or foreign investors. The fast growing company is reflected by increasing amount of company’s income. The higher income that company earned shows the promising prospects for the future. The other phenomenon is that many foreign investors take big number of share in telecommunication industry companies. Based on financial report in 2014, the composition of share owned by foreign investors such as, PT XL Axiata Tbk is dominated by foreign investor which is Group Berhad 66.54 percent, while PT Indosat Tbk owned by Qatar Telecom by 65 percent shares. Similarly, PT Bakrie Telecom which is 7.24 percent of its shares are owned by Raiffesien Bank International AG Singapore. This situation happened because the investor sees the telecommunication company as a beneficial long term investment. In order to take economic decision to invest, investors use financial report to analyze the company ability to generate profit.

Information of financial of a company is fundamental aspect for investor to decide investment. The information of financial report is significant matter in business. The financial report is to give the information of financial position, performance, and company cash flow that are beneficial in taking the economic decision.

The financial report is the responsibility of resources management that is trusted to manage. In order to achieve the goal, the financial report must present all the financial information of the company such as asset, liability, equity, revenue, expense, profit and loss as well as cash flow.

According to (Jogiyanto: 2009) there are two kind of analysis to determine the share valuation, which is consist of fundamental information and technical information. Fundamental information obtained from internal sources includes dividends and company’s sales growth, or information that is technically obtained from external sources such as an economic condition, political, financial, and other. The purpose this study is to find that there are an effect between cash flows, accounting profit and net profit margin on share return.

**LITERATURE REVIEW**

**Statement of Cash Flows**
Cash flows can be defined as financial reports that contain the cash effect of operating activities, investment activities and financing activities as well as the increase or decrease net of in company’s cash during a period.

Cash flows are changes in amount of company’s cash during a certain period which the nature of cash flows is highly liquid, short term, and can be cashed in certain amount without facing a significant risk of changes in value.

Statement of cash flows is one of the important parts in financial statement. It is a report that reported by company’s management to the public in order to provide sufficient financial information for interested parties. In the process of economic decision making, financial information users need to evaluate the company’s ability to generate cash and acquisition decision.

**Accounting Profit**

There are two methods to measure the company accounting performance which is accounting profit and total cash flow. The accounting profit is operationally defined as the difference between the income that comes from the realization that a transaction period and is associated with historical cost. In the method of historical cost (historical cost) income measured by the difference between the net assets of the beginning and end of the period that each measured with historical costs so that the result will be the same with that profit is calculated as the difference between revenues and expenses.

In accounting profit there are various components, which a combination of several basic components such as gross profit, operating profit, profit before tax, and profit after tax. Income is increases in economic benefits during an accounting period in the form of additional income or assets, or a decrease in liabilities that result in increases in equity that is not derived from the contribution of capital investment. The absence of common understanding to define precisely profit is due to the extent of the use of the concept of profit. Accountants define profit from the viewpoint of the company as a whole. Accounting profit (income accounting) is operationally defined as the difference between the revenue realized from the transactions that occurred during the period with the costs associated with these revenues.

**Net Profit Margin**
Profitability ratio is the ratio that aims to determine the ability of the company in generating profits for a certain period as well as provide an overview of the effectiveness of management in carrying out its operations. Management effectiveness seen from the profit generated on sales and investment companies.

Net Profit Margin (NPM) stated by Riyanto (1999: 37) is the ratio between the net operating incomes to net sales. In other words, it can be said that the ratio of profit margin is the difference between the net sales with operating expenses (cost of goods sold plus administrative fee plus the cost of other expense), where the difference expressed as a percentage of net sales.

The company with higher Net Profit Margin (NPM) ratio usually attract more investors or creditors because the company have a good ability to generate profits. The more NPM ratio means the profit that a company have is very high. The higher value of NPM indicates that the company is have an efficient operational. Companies can reduce unnecessary costs, so the company is able to maximize the net income earned. NPM is used to measure the company performance with the indicator the company ability to generate net profit which means their operational is efficient. The relation between net profit and net sales shows the ability of management to run the company successful enough to retain a certain margin as reasonable compensation for the owner who has provided capital to a risk. The capital market investors need to know the company's ability to generate profits in order to consider whether the company was profitable or not.

Share Return

Investments can be interpreted as a commitment to invest some funds at recent time with the goal of obtaining a profit in the future. In other words, the investment is a commitment to sacrifice current consumption with the aim of increasing consumption in the future. Another understanding of investment is a form of investments or capital to produce wealth, which will give profit rate of return either in the present or in the future and.

Investments can be associated with the planting of a number of funds in real assets such as land, gold, houses, art goods, real estate and real assets or other financial assets, in the form of securities which basically the claims on real assets controlled by entities such as: deposits, shares, bonds, and other securities. Expectations of future profits is compensation
for time and risk associated with the investments made. In the context of investment, profit expectations are often referred to as return.

Thus, the return is a reward in the form of income will be received by investors after the investment, in the form of dividends or capital gain is the difference between the selling price and the purchase price of shares as a result of its investments in a particular company.

Shares return is varying, depending on the time and type of investments. A company that gains profit, the owner’s fund in the form of shares also increases. Conversely, if a company losses or even bankrupt, the right to creditors is a priority while the value of the share will decline.

The Relation of Cash Flows to Share Return

Cash flow is derived from the principal revenue-producing activities of companies or transactions that into or out from the determination of net income. Covering the cash flow generated and excluded from the transaction is included in the determination or designation of the net profit (net income). So the higher cash flow from operating shows that the company is profitable, because of the company's activities alone can generate cash well. The information of cash flows will increase the company operating ability because it prevent from uses different accounting method on an event or transaction (Gunawan and Bandi, 2000). Baridwan (1997) stated that cash flows is useful information for financial users to make an investment decision.

Triyono and Jogiyanto (2000) concluded that the total of cash flows consists of three components of cash flow, operating cash flow which have no significant relationship to price and share return. Similar with previous study, Azilia and Yulius (2012) also stated that the increasing cash flow component testing found that a component of cash flows has a strong association with share returns, but the total cash flows have no significant effect with share return. Rudiyanto (2011) in his study stated found that cash flow have significant relationship to share price but its found no insignificant relationship to share return. Otherwise, Octavia (2008) found that total cash flow have positive effect to share return. The amount of cash flows arising from operating activities determines whether the operations of the company can generate sufficient cash flows to repay loans, maintain the operating capability of the enterprise, pay dividends and make new investments without relying on external sources of
financing. So that the change in cash flow from operating activities which will give a positive signal to investors who will buy shares of companies that in turn increases the share return. The research results conclude that the cash flow from operating activities has a positive relationship with share return. Therefore, the hypothesis can be formulated as follows:

H1: *Changes in cash flow have positive effect on share returns*  

**The Relation of Accounting Profit to Share Return**

The income statement is a report that measures the success of the company's operations in a certain time period. An income statement provides information to investors and creditors to help them predict the amount, timing and uncertainty of future cash flows. The larger the profits from the company, then the company will be able to distribute dividends, which grow and will affect the share returns are positive.

Companies that have the ability to generate profits, its share price will tend to rise. That is if the company makes a profit which is the greater, then theoretically the company will be able to distribute dividends, which grow and will affect positively on share returns. Azilia and Yulius (2012) stated that the increase in accounting profit may prompt investors to be more interested in buying the company's shares. According to Octavia (2008), accounting profit have positive effect to share return. Accounting profit is important information to investor in order to investing in capital market. Elarita (2007) and Rudiyanto (2011) found that accounting profit have significant relationship on share return. Different with previous study.

The interest of investors buying shares of the company will increase the company's share price and led to the increase in share returns. High profits would encourage investors to buy shares in the companies concerned because they are interested in higher investment income. This will directly lead to increased share prices and share returns.

Based on the previous explanation above, it can be concluded that the accounting profit has a positive relationship with the level of profit shares. Therefore, the hypothesis can be formulated as follows:

H2: *Changes in accounting profit have positive effect on share returns.*

**The Relation of Net Profit Margin to Share Return**
Net profit margin is a measure of profitability related to the sales generated (net sales revenue). Net profit margin or net profit margin is an advantage of sales after calculating all the costs and income taxes. This margin shows the ratio of net profit after tax to sales. Tandelilin (2009: 239) in the journal Hutami (2012) stated that NPM rate may indicate a good performance of the company because it can generate large net income through its sales activities so that the company's share attracts investors and will raise the company's share price. Gus Harjito and Rangga Aryayoga (2009) stated that NPM have positive effect to share return. According to Dyah (2012), NPM have no significant effect to share return. NPM ratio on large company shows that the company can generate net income through sales activities. This information will be used by investor in making a decision whether to buy the issuer's shares, because the net profit increased the company ability to pay dividend increase.

Based on the above discussion, it can be concluded that the NPM has a positive relationship with the level of shares return.

**H3:** *NPM have positive effect on share returns*

### The Relation of Cash Flow, Accounting Profit, and Net Profit Margin simultaneously to Share Return

Cash flow, accounting profit, and net profit margin are financial report component that measure the success of the company's operations in a certain time period. Triyono and Jogiyanto (2000) stated that cash flow, accounting profit, simultaneously have positive effect to share return. Furthermore, Octavia (2008), Rudiyanto (2011), and Elarita (2007) concluded that cash flow, component of cash flow, and accounting profit has strong association with share return. This information is useful for investor to make a decision concerning investing activities.

Based on the above discussion, it can be concluded that cash flow, accounting profit, and NPM simultaneously has a positive relationship with the level of shares return.

**Ha4:** *Cash flow, accounting profit, and NPM simultaneously has a positive effect to share return*

### RESEARCH METHODOLOGY

This study is included in quantitative approach that emphasizes the analysis of the numeral data (numbers) which are processed with statistical methods. The population used in
this study is companies from all telecommunication industry sectors listed on the Indonesia Share Exchange and issued financial reports audited by accountants continuously from 2009 to 2014. The number of population is 6 companies that are listed on the Indonesia Share Exchange. The researcher set specific criteria and decides to take 5 samples of companies in telecommunication industry in order to obtain complete data. The details of the telecommunicating company that are being subject of the studied are Bakrie Telecom Tbk, Indosat Tbk, Inovisi Infracom Tbk, Telekomunikasi Indonesia Tbk, and XL Axiata Tbk.

The analysis model in this study is multiple regression analysis. The formula of linear regression as follows:

\[ Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e \]

Description:

- \( Y \): Share Return
- \( a \): Constanta
- \( b_1, b_2, b_3 \): Predictor coefficients of the regression equation \( X_1, X_2, \) and \( X_3 \)
- \( X_1 \): Cash Flow
- \( X_2 \): Net Income
- \( X_3 \): Net Profit Margin
- \( e \): Error

In this study, there are three (3) independent variables such as Cash Flow (\( X_1 \)), Accounting Profit (\( X_2 \)) and Net Profit Margin(\( X_3 \)). The dependent variable used in this study is share returns. Share return is income expressed in a percentage of the initial capital investment.

The stock return variables used in this study is the actual return. It is the difference between the stock price with the current period stock prices in the previous period divided the share price the previous period (capital the gain or loss). The share price used is closing price (closing price) or stock price (Market value) at the Indonesian Stock Exchange (IDX) at the end of the trading day. The observation period an stock price changes (event period) are used is 11 days. The five days before (\( t-5 \)) until five days after (\( t + 5 \)) the publication of the annual
report and one day at the time of publication of the annual report each company. The 11’s days observation significance is market reaction can already be seen during that period. Because if the event period taken too long, probability there's additional information who can not observed in this study, for example, cash dividend, stock dividend, splitting shares (stock split) and so on.

**RESULT**

This study has a purpose to obtain the empirical study of telecommunication sub sector industry of companies in Indonesia that listed in Indonesia Stock Exchange (BEI). This study is focusing on telecommunication company which the population in this study is 6 companies in total. In the sampling process there is one company that must be taken off because it has not meet the criteria that the writer has already determines. So, the writer takes 5 companies as a sample in this research. The data used is annual report grouped as time series data and historical prices shares data of listed company.

The observations and collecting data is focusing on telecommunication sub sector company which is the research objective to imply the empirical study and advance analysis. The sampling technique is used telecommunication sub sector company as the criteria, then the reason why the writer choose this sector is (1) The telecommunication sub sector industry has a net sales increasing in year by year in observation period which is mean it has potentially get higher revenue in the future, and (2) its sector has a market price fluctuation on each stock exchanges. By the above reasons, the high net sales will be representing the higher company performance to generate profit. Moreover, the market price fluctuation will be representing the powerful reaction that experienced in internal and/or external company events.

Based on the data descriptive, the average of share return is 0,337 which is means the investor get the share return in observation period as 3,3%, with the standard of deviation 0,34583 or 34,5%. The maximum of share return is 0,86 or 86% which is the share return of XL Axiata Tbk, otherwise the minimum return is minus 0,87 or 87% that occur in Inovisi Infracom Tbk.

Table1: Descriptive Statistics
The average value of the variable changes in cash flow from operations (CF) from 2009 to 2014 is amounted to negative 0.0430, which means that this shows that the companies sampled had an increase of cash flow from operating activities amounted to 4.3%. The maximum value of the variable changes CF of 0.33 or 33% that occurred in PT XL Axiata (EXCL) in 2011, while the minimum value of the variable changes CF minus 51% occurred in PT Indosat Tbk (ISAT) in 2009.

Then, the accounting profit variable shows, its variable (NI) has an average of negative 0.018, which shows that in the period of the sample study companies experienced an average decline of 1.8% accounting profit. The maximum value of the variable changes to NI by 69% occurred in PT Indosat Tbk (ISAT) in 2011, while the minimum value of the variable changes to NI at negative 62% occurred in PT Bakrie Telecom (BTEL) in 2013.

While the change in the variable net profit margin (NPM) has an average of 0.0796, which indicates that in the period of the study sample companies increased an average profit accounting for 7.96%. The maximum value of the variable changes NPM of 33% in shares of PT Telkom Indonesia Tbk (TLKM) in 2012, while the minimum value of the variable changes NPM at negative 62% occurred in PT Bakrie Telecom (BTEL) in 2014.

The multiple regression analysis models are used in this study; the requirements of a classic assumption test must be met first. There is some of the things that underlie the necessity of conducting classical assumptions beforehand.

The multicollinearity diagnostics aimed to whether in the regression model founded the existence of a correlation between independent variables. Good regression models should not happen between independent variable correlations. If the variables are correlated, then the
mutually independent variables is not orthogonal. Based test result, the VIF value for each variable are 1.342, 1.022, and 1.345, we can decide that all five variables used in the regression models no excess values of the VIF.

Autocorrelation test aimed whether in the linear regression models, a correlation occurs between an error in the t-period with an error in the period t-1. In this research, we used Durbin-Watson test, whereas the test used to make a decision for the first stage autocorrelation occur, and required any intercept (constant) occur in the regression model and no lag independent variable. Autocorrelation testing the amount for Durbin Watson testing is 1.850. From the formula we can assume if there is no autocorrelation, the 4-DU is 2.3501 and 4-DL is 2.7862.

The heteroscedasticity method used in this research is using a graphic plot. the pattern on the scatterplot in all samples have spread far from each other. This indicates that data are normally distributed. All patterns available data has fulfilled the criteria laid out in the scatterplot visualization, so the regression model used will also be good.

The multiple regression analysis is used to get the variables that been studied can be seen in table 2.

Table 2 : Coefficient Determinant

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.529*</td>
<td>.280</td>
<td>.196</td>
</tr>
</tbody>
</table>

From the table 2 we can analyze that $R^2$ has a value of 0.280 which can conclude that the regression model is able to explain the effect of variable operating cash flows, investment cash flow, financing cash flow, accounting profit, and NPM on share returns of 28%, while the remaining amount of 72% cannot be explained by this regression equation or in other words a lot of other factors that affect share returns.

Table 3: F-Test Statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.970</td>
<td>3</td>
<td>3.364</td>
<td>.034*</td>
</tr>
</tbody>
</table>
The results of F statistic above, shows that the value of F is 3,364 with probability more than 0.05 or the level of significant is more than 0.05. The certain arrangement of F value > F distribution (value = df), thus we summarized that regression model for Telecommunication sector from all of companies could predict share return or in other word that all independent variables (variables CF(X1), NI(X2), and NPM(X3)) does involve simultaneously toward Share Return or SR (Y).

From the F statistic result, we conducted that hypothesis outcome of Ha4 is accepted. Which means it has simultaneously effect toward dependent variable share return or SR.

Table 4 : T-test Statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficient</th>
<th>T</th>
<th>Sig.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-.011</td>
<td>-.158</td>
<td>.876</td>
<td></td>
</tr>
<tr>
<td>CF</td>
<td>-.452</td>
<td>-1.379</td>
<td>.180</td>
<td>Not Significant</td>
</tr>
<tr>
<td>NI</td>
<td>.478</td>
<td>2.787</td>
<td>.010</td>
<td>Significant</td>
</tr>
<tr>
<td>NPM</td>
<td>.422</td>
<td>1.183</td>
<td>.247</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

Based on table 4, the variable CF have $t_{value}$ -1.379 with at significance level 0.180 respectively. It can be compiled that $t_{value} > t_{distribution}$. It is means the variable (CF) partially have no significant effect to dependent variable SR. The variable NI have $t_{value}$ 2.787 with at significance level 0.010 respectively. It can be compiled that $t_{value} < t_{distribution}$. It is means the variable (NI) partially have positive significant effect to dependent variable SR. The variable NPM have $t_{value}$ -1.183 with at significance level 0.247 respectively. It can be compiled that $t_{value} > t_{distribution}$. It is means the variable (NPM) partially have no significant effect to dependent variable SR.

**DISCUSSION**

Based on the results of hypothesis testing H1, this study was not able to find any effect on stock returns. The hypothesis that does not proven the cash flows activities affect share return. That is in contrast to the results of research, Rahudiono (2012) and also by Octavia (2008). The study that conducted by Rudiyanto (2011) found that total cash flow
have a significant effect on share return. The same study that conducted by Elarita (2007) also found that cash flow have positive relationship toward share return. But the results of this study according to research conducted by Triyono and Jogiyanto (2000) which states that cash flow activities do not have a significant effect on stock returns.

The results indicate that investors do not see a change of reporting cash flows as information that can be used for making investment decisions. Cash flows from operating activities which demonstrate the company is able to operate profitable not be read by investors. The amount of cash flows arising from operating activities generate sufficient cash flows to repay loans, maintain the operating capability of the enterprise, pay dividends and make new investments also are not seen by investors in making investment decisions. So that the change in cash flow from operating activities is a positive signal to investors, is not noticed by the investor.

The results of hypothesis testing H2, accounting profit shown to have a significant effect on stock returns. The results of this study further strengthens the results of research conducted by Rahudiono (2012), Daniati and Suhairi (2006), Vicky (2008), and Azilia and Yulius (2012) that the accounting profit possess a positive relationship with stock returns. And also study that conducted by elarita (2007) states that Accounting profit have significant relationship on share return. But this study different with the study conducted by Rudiyanto (2011) that its result shown that accounting profit have no effect on share return.

The companies that publish high positive income, the stock returns will be high as well. In other hand, poor profit will make stock returns go down. Information accounting profit as a result of the company's performance is read by investors. Investors proven reading the information accounting profit as one of the important information to make investment decisions.

The test results to variable net profit margin indicates that there is no effect on share returns. This is means that hypothesis testing H3 is not proven, which indicating that the NPM is considered not representative of actual conditions on the company's profitability or considered not contain information relating to the share return. This research strengthens the results of research conducted by Dyah (2012) and Putri (2012) that NPM have no significant effect to share return. But this research different with the research conducted by Tandelilin (2009) which is stated that NPM have significant effect to share return.

NPM functions merely shows the company's ability to make a profit but not directly related to its effect on share return. Increasing and decreasing the sales and revenue ratio will affect the NPM, but the study prove that this process has no relation with its effect on share return.
return. These results indicate that investors are no longer just using measures performance using ratio analysis NPM because there is still other information that is considered to be more relevant in making investment decisions.

CONCLUSIONS

The purpose of this study was to determine whether information about changes in cash flow, accounting profit, and net profit margin is used by investors to make investment decisions that in this study is the share return. Based on the research that has been conducted on a sub company of the telecommunication sector listed on the Indonesia Stock Exchange from 2009 to 2014, then the result is that information changes in cash flow and net profit margin proved to be have not a significant effect on share returns. While the accounting profit information proved have a significant effect on share returns. And also, cash flow, accounting profit, and net profit margin simultaneously has significant effect toward share return.

The result suggests that accounting profit information is more meaningful for investors than cash flow information as well as the net profit margin. This is a challenge for analysts of financial statements for more to develop methods of analysis which uses numbers cash flow statement. So that the numbers more cash flow statement has meaning as information in the income statement. The challenges also for standard setters to continue to develop the presentation of cash flow statements are easier to understand, communicative for users of financial statements. So that users of financial statements will also begin to be interested to see the numbers presented in the cash flow statement, as well as the income statement.

REFERENCES


