

# THE IMPACT OF PROFITABILITY, CAPITAL STRUCTURE AND OPERATING CASH FLOW TO STOCK RETURN (EMPIRICAL STUDY OF BANKING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE FOR THE YEAR 2012-2014)

**Reyhan Ilyas Malkan**

**Prof.Dr. Sutrisno T., SE., M.Si., AK., CA.**

International Undergraduate Program in Accounting, Faculty of Economics and Business,

University of Brawijaya

Jl. Mayjen Haryono 165, Malang 65145, Indonesia

Telp. 0341-555000 (Hunting), 551396 Fax 0341-553834

E-mail: [info.feb@ub.ac.id](mailto:info.feb@ub.ac.id), Website: <http://www.feb.ub.ac.id>

---

## **Abstract**

*This research purpose to find the impact of profitability, capital structure and operating cash flow on stock returns for banking companies listed in Indonesian Stock Exchange. Population used in this research is 42 companies and then through the purposive sampling process, this research found 28 companies from Indonesia stock exchange that can fulfill the sampling criteria. Multiple regression analysis is used as the technique to test the hypothesis. Results of hypothesis testing concluded that the profitability has a positive impact to stock return. Then, the operating cash flow has a same result that has significant positive impact on stock return. However, this study cannot prove that capital structure possessed has significant influence on stock return in banking companies. In this research, it is found that profitability with the ratio of earnings per share is a strong indicator that can impact significantly on stock returns*

**Key word:** stock return, profitability, capital structure, operating cash flow.

## A. INTRODUCTION

Determining an investment that can produce good returns requires a variety of information as the decision basis such as from the prospective company financial statements. The financial statements are the result of the company's accounting process and a reflection of a company's performance during the period. Based on the accounting information presented in the report, investors can analyze the company's prospects or future risk and the anticipated returns. Return or the rate of profit is the reward earned from investments. Return can be divided into two: first, actual return, which are calculated based on historical data that is the difference between the stock prices of the current period to the previous period divided by the share price on the previous period. Return is important as a basis of measurement of company performance as well as the basis for determining the expected return and risk in the future. Second, the expected return which is return that would be obtained by investors in the future (Tandelilin, 2001: 6).

Many factors affect the company to obtain additional capital. Therefore, corporate managers should be wise and careful to make a funding decision. The capital sources could come from the internal and external company. Generally, the capital sources of companies are preferred from an internal source to reduce dependence from the outside parties which is the shareholder. Along with the time, company have a desire to grow and develop along with the high flow of business competition that makes the company needs a more capital. Therefore, the company has no other choices to use the capital sources from the external parties to continue to running a business. The external capital sources may come from the creditors in the form of loans / debts to the company and for other options, the company can obtain investment with sales shares in the capital markets.

The capital market is a place of transactions for those who need funds covering companies and parties expending funds for investment. The main requirement desired by investors to give its funds through the capital market is the safe feeling in investing. This feeling obtained by investors from the information on the company which is clear, fair, and timely as it is a basis for making investment decisions. The existence of new information will form a new confidence among investors. The new trust will change prices through changes in demand and supply of shares.

The information on the company's performance is from the book value which represents the company's physical assets. The information in this facet describes the company's has a lot of assets and method in managing their resources to obtain the profit which will have a value same as the market value or bigger than book value. Therefore, the investor will purchase shares with the high prices when there is security of capital and the most profitable company will be a prime target for investors.

This research is inspired by the economic phenomenon happened in banking industry. PT Bank Tabungan Negara (BTN) generates Rp. 492 billion net profit growing 22% over the same period in 2015 amounted to Rp. 402 billion. Furthermore, PT Bank Central Asia Tbk generates a net profit amounted to Rp. 4.5 trillion in the first quarter of 2016 growing 11.1% compared to the same period in 2015 which was amounted to Rp4.1 trillion, and PT Bank Bukopin Tbk (Bukopin) records a positive performance during the first three months of this year, with a net profit of Rp. 275 billion. The value grew 38.5% year on year ([www.neraca.com](http://www.neraca.com)). The increase of earnings in the banking industry, especially at bank BCA, BTN and Bank Bukopin is expected to attract the attention of potential investors. To make sure the right investment and a good actual return, the investor need a fine analysis and supported by accurate data. Proper technique in the

analysis will reduce the risk for investors to invest. There are many analytical techniques that can be chosen by the investor. In general, the analytical techniques widely used are fundamental analysis, technical analysis, economic analysis and financial ratio analysis. Basically using financial analysis ratios in the form of profitability is very insufficient to warrant their stock return to the expectations of those investors. Whereas, there are three of the elements from financial analysis ratio: the ratio of profitability, capital structure, and operating cash flow.

Based on Hanafi (1996: 83) profitability is the company's ability to produce profits at the level of sales, assets or capital stock of a particular to reflect the efficiency of a company. From that definition, it can be concluded that the profitability ratios is a measure of a company's ability to generate profits with its economic capacity for a certain period. Investors will be concerned with profitability analysis, because it is useful to know how big the results to obtain investment returns or profits. The greater profitability of company is possible to obtain good returns. . In addition, the companies where profitability is better and tend to be more consistent in return are interested for potential investor. In assessing the state of a company, it is also described in the capital structure of a company. Capital structure or the proportion of debt to capital in the funding of the company is one of the risks from the standpoint of investors and is related to the risk-averse nature of investors which is likely to steer clear of risk (Tandelilin, 2001). Companies with a capital structure that is dominated by debt is tend to be avoided for investor, because of high debt is a liability that will be their responsibility when it became a shareholder. In addition, the company with a high debt also has a high risk of liquidation or the inability to repay all its obligations. Companies with a capital structure that is dominated by the debt have a possibility give a smaller return on shareholders due to the amount of interest expense and debt that must be repaid, so the use of debt in companies responded are negatively by investors. Operating cash flow is an indicator of the company's ability to generate to repay the loan, to pay dividends and make new investments without recourse to external sources of financing. Investors can assess a company's ability to make payments of dividends from the cash flow information. OCF used by investors to assess the company's ability to generate cash flow from operations.

This study is a replica of Simanungkalit (2009) studies that evaluated the effects of profitability, and leverage ratio to return stock at food and beverage companies listed on the Stock Exchange from 2004-2007. The difference of this study with Simanungkalit (2009) is the author adds one variable being tested is operating cash flow and change one variable into the capital structure. Measurement of profitability used Simanungkalit (2009) is ROA, by dividing the net income after tax to total assets of the company and the difference data that the authors replace with the data of banking companies listed on the Stock Exchange from 2012 to 2014. Because previous studies examining more dominant on the manufacturing and mining companies, this is not quite describe what happens to companies in other sectors. Based on the background above, the author is interested in doing research to know the impact of financial ratio analysis which is profitability, capital structure and operating cash flow on stock return in the sub-sector of banking companies in Indonesia listed in Indonesia stock exchange. Therefore, the author is interested to study “The Impact of Profitability and Capital Structure to Stock Return (Empirical Study of Banking Companies Listed in Indonesia Stock Exchange for the Year 2012-2014)”

## **B. LITERATURE REVIEW**

### **THEORITICAL FRAMEWORK**

#### **Stock Return**

Stock return is the rate of return obtained by investors on the ownership of shares in the company, which consists of a dividend and Capital gain. Dividend is a payment made by a corporation to its shareholders, usually as a distribution of profits. When a corporation earns a profit or surplus, it can re-invest it in the business, and pay a fraction of this reinvestment as a dividend to shareholders. Distribution to shareholders can be in cash, if the corporation has a dividend reinvestment plan. The amount can be paid by the issue of further shares or share repurchase. The Markowitz portfolio optimization is then done with the modification that excess losses can be used to offset capital gains that are realized as a result of the portfolio optimization and taxes must be paid on realized capital gains that are not offset by losses. One problem with this simple approach is that ignores the potential benefits from portfolios that facilitate harvesting of future capital losses, Margaret and Gray (2008).

According to Tandelilin (2001: 48) the sources of investment return is consisting of two main components of yield and capital gain (loss). Yield is the return that reflects the components of cash flow or income periodically from investing. If we invest in a bond, the amount indicated yield of bond interest paid. Similarly, if we buy a stock, the dividend yield is indicated by the amount we earn.

#### **Profitability**

Profitability is a group ratio that indicates the combination of the effect of liquidity, asset management, and debt on operating results. (Brigham & Houston, 2010:146). According to Hanafi (2008:42), profitability is the company's ability to generate profits with the resources owned by the company. Another understanding stated that, the profitability ratio measures the company's ability to produce profit (profitability) at the level of sales, assets, and the capital stock of certain. The ratio used in calculating the profitability is the Earning per Share (EPS). EPS is a ratio that measures a company's net income in the period divided by the number of shares outstanding. This ratio is useful in comparing the risks and earnings per share for the company by other companies. When investors evaluate the ability of a company, it is not enough to know the increase or decrease in income of companies, but they also have to look at how these changes affect investment income. Earnings per share are the basis for the provision of dividends (Tandelilin, 2001). EPS is a measure of a company's ability to generate profits per share to the owners. EPS analysis is often used by investors as it reflects the possibility of the rate of profit earned by shareholders. EPS rate may mean that the company will provide an opportunity rate of return or income that is large enough for investors.

#### **Capital Structure**

The capital structure is the firm's method in financing its overall operations and growth by using different sources of funds. Debt comes in the form of bond issues or long-term notes payable, while equity is classified as common stock, preferred stock or retained earnings. Short-term debt such as working capital requirements is also considered to be part of the capital structure. According to Brigham and Houston, (2001) there are some factors influence the capital structure, first is the stability of sales; the firm and the sales are relatively stable can be more save to get more loan and bear the fixed expense higher than that of firm with unstable sales. Second is the assets structure, firm which its assets appropriate to be credit assurance tends to use more debt. The third factor influences the capital structure is the leverage operation. In this

case, firms with lower leverage operation tend to be more able to increase the financial leverage because they have small business risk. The fourth factor is the growth level; firm which grow rapidly has to depend more on external capital. However, at the same time, firm with a rapid growth tend to face bigger uncertainty that make it lessen its willingness to use debt.

### **Operating Cash Flow**

SAK (2009) explained that the operating cash flow is cash flows arising from the principal revenue-producing activities of the company. This activity involves the effect of cash from the transaction entered into decline in net profit in the income statement. Operating activities are the main income earning activities and other activities that are not investing activities and financing activities which include the activities of production and delivery of goods. The amount of cash flows arising from operating activities is an indicator that determines whether the operation of the company can generate sufficient cash flows to repay loans, maintain the operating capability of the company, pay dividends and make new investments without recourse to external sources of financing. From the operating cash flows process, the transactions or other events would affect the net profit or loss. A good OCF indicates the company cash that could be used to support the operations of the company, so the company can get high profits. In this study, the OCF is decided by comparing the net of cash from operating activities divided by total assets.

## **HYPOTHESIS DEVELOPMENT**

### **Profitability and Stock Return**

Investors see value as one measure of profitability that shows the overall performance. High profitability reflects the value of the company that is getting better so the stock price will also increase. It is important that the investor notes that if they want to acquire shares in the form of return of capital gain by selling shares as a result of the increase in stock prices Exchange. Thus, the profitability of an effect on stock price movements in bursa effect on stock returns. EPS is used to analyze risk and comparing revenue per shares with other companies. For investors, the EPS information is considered the most fundamental and useful, because it can describe the earnings outlook in future front (Tandelilin, 2001).

Helen (2005) studied the effect of accounting and non-accounting information to the initial return on the Jakarta Stock Exchange using the ratio earning per Share (EPS). That study found the effects of EPS on the initial return as the prospects of the company. A company that has high EPS is better in providing optimum return compared with companies with lower EPS. Based on the results of the above study, the researcher formulated the hypothesis:

**H1: Profitability has a positive impact on stock return.**

### **Capital Structure and Stock Return**

The relationship between make decision in selecting the source of funds with investment decisions affecting the capital structure of a company policy. Selection of the capital structure is an issue that concerns the funding used by the company. Ultimately, this could mean determining how much long-term debt that will be used by the company to fund its assets. High capital structure as a result of increased debt used to fund the majority of the assets of a company or to finance investment will increase the risk of the company. This is because companies burdened by an obligation to pay the debt and the interest on that loan.

High debt ratio shows the company's debt is financed by a share capital investor who invested, so investors feel overwhelmed with the amount of debt the company. Investors will respond to information related to the risk, because investors tend to be risk averse (Tandelilin, 2001). Investors do not want to take a big risk in investing in the hope that investors will obtain a

refund (return) of shares that are beneficial for them. The higher of capital structure means the rate of return would be small for investors, given the cost to be paid for the debt, resulting in stock returns. Based on the research from Utami (2015), the capital structure does have a significant negative effect on stock returns. This means the market gave a negative against corporate debt information drawn from Debt to Equity Ratio (DER) because it is considered as the risks to be covered by the investor.

## **H2: Capital Structure has a negative impact on Stock Return**

### **Operating Cash Flow and Stock Return**

According to Brigham (2005), the cash flow is net cash fact, which differs from net accounting profit produced by the company within a certain period. Cash flow consists of operating cash flow, cash flow investing and financing cash flows. Operating cash flow (OCF) is the cash flows arising from a normal operation which is the difference between revenue and cost of treasury cash. According to Triyono and Hartono (2000) in Oktavia (2008), the operating cash flow has a significant relationship with stock prices. The higher cash flow from operating activities indicates that the company is able to operate profitable; because of the operating activities a company can start the business properly. So with the increase in cash flow from operating activities will provide a positive signal about the company's performance in the future to investors to attract investors buying the shares. This will boost stock prices and ultimately affect the increase in stock returns. Based on the illustration above the hypothesis is:

### **H3: Operating cash flow has a positive impact on stock returns**

## **C. RESEARCH METHOD**

### **Type of Research**

This study was classified as quantitative research which is the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques. The objective of quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. Quantitative data is any data that is in numerical form such as statistics, percentages, etc. Done with causal comparative research, Causal-comparative research attempts to identify a cause-effect relationship between two or more groups. Causal-comparative studies involve comparison in contrast to correlation research which looks at relationship.

### **Sample and Population**

Population refers to a whole group of people, events, or anything that has certain characteristics that researchers want to investigate. The researcher conducts a case study on Indonesian banking company listed in the Indonesia Stock Exchange (BEI) in 2012 to 2014. The total companies in the sub-sector of banking companies listed in IDX are 42 companies. After sampling process, all companies included in the criteria made by the author are 28, so there are 28 companies examined in this research.

### **Type and Data Source**

This study used secondary data obtained from the publication of the official website of the Indonesian Stock Exchange (BEI). Selected from a population sample of public the companies listed on the Stock Exchange, this research using purposive sampling technique. The selection sample criteria are: Companies engage in banking industry, The Company is listed on the

Indonesia Stock Exchange and the company's financial reporting on an ongoing basis since 2012 until 2014.

### **Dependent Variable**

The dependent variable in this research is stock returns, level of profits in an investment (Tandelilin, 2001: 48). Return stocks used in the form of dividend. Dividends are a component of the return that reflects the cash flow or income derived from an investment periodically. The greater the dividend, investors will be more interested in buying stocks.

### **Independent Variable**

#### **1. Profitability**

Probability variable in this study is earning per Share (EPS), which are the ratio that measures the company's net income over a period divided by the number of shares outstanding. This ratio is useful in comparing the risks and earnings per share for the company by other companies. When investors evaluate the ability of a company, it is not enough to know the increase or decrease in income of companies, but also have to look at how these changes affect investment income (Tandelilin, 2001).

#### **2. Capital Structure**

Capital structure is permanent expenditure which reflects the balance or the ratio between long-term debts with its own capital. Capital structure in this study is measured by using indicators Debt to Equity Ratio (DER). This ratio measures how far the company's assets are financed by debt.

#### **3. Operating Cash Flow**

Operating cash flow is cash flows arising from the company's main revenue-producing activities and other activities that are not investing activities and financing activities at the end of the year. The cash flows components are used to compare the net cash from operating activities to total assets. In research Pradhono (2004)

## **DATA ANALYSIS**

### **Classical Assumptions Test**

#### **1. Normality Test**

Data normality test is performed to determine whether the regression residuals OLS (Ordinary Least Square) has a normal distribution. To test the normality of the data used Kolmogorov-Smirnov test. According to Santoso (2004: 127), score Kolmogorov-Smirnov significantly more than 5% explain that the OLS regression residuals are considered to have a normal distribution.

#### **2. Multicollinearity Test**

Multicollinearity is one important assumption for multiple regression model. This assumption states that the independent variable correlation symptoms occur or has a significant relationship. Testing multicollinearity will use Tolerance and Variance Inflation Factor (VIF).

#### **3. Heteroscedasticity Test**

Heteroscedasticity test is performed to determine whether the variables have significant influence with its residual value. This test will be conducted with the test Glejser, if sig. > 0.05, no symptoms of heteroscedasticity. If a Good model there is no heteroscedasticity. According to Ghazali (2006:105) When there is a certain pattern, such as spot, which turns into a pattern (waves, wide, and then

constrains) then it indicates a heteroscedasticity shown in the data. Conversely, when there is no certain pattern that spreads above or below 0 of y-axis then there is no heteroscedasticity found in the data.

#### **4. Autocorrelation Test**

Autocorrelation aims to test whether in a linear regression model has no correlation between bullies error in period t with an error in period t-1 (previously), autocorrelation problem is tested using the Durbin-Watson formula (Gujarati, 2007: 215).

#### **Multiple Linear Regression Analysis**

Multiple regression analysis is an analysis of the relationship between a dependent variable with two or more independent variables. To determine the effect of independent variables on the dependent variable used multiple linear regression models with the following equation:

$$Y = b_0 + b_1 \text{EPS} + b_2 \text{DER} + b_3 \text{OCF}$$

Explanation:

|                                              |                        |
|----------------------------------------------|------------------------|
| Y                                            | = Stock Return         |
| b <sub>0</sub>                               | = Constanta            |
| b <sub>1</sub> b <sub>2</sub> b <sub>3</sub> | = Coefficient          |
| EPS                                          | = Earnings per Share   |
| DER                                          | = Debt to Equity Ratio |
| OCF                                          | = Operating Cash Flow  |

## **D. RESULTS AND DISCUSSIONS**

#### **General Illustration of Research**

The banking companies listed in Indonesian Stock Exchange started from 2012 until 2014 is the object of this research. There are 42 companies listed in Indonesian Stock Exchange. After sampling process, the population is narrowed down into particular size as presented on criteria resulted with 28 companies. The objective of this research is to find the impact of those variables to stock return, whether those variables have a positive or negative impact on the banking companies listed in Indonesia stock exchange.

There are three independent variables and one dependent variable in this research which are all categorized as secondary data. The author uses three independent variables which are first, earnings per share to compare between the net profits after tax with the number of shares issued as profitability's ratio. Second, debt to equity ratio is to compare between total debts with total of capital for the variable of capital structure, and, the third, independent variable is operating cash flow to asset, that is to compare between incomes from operating with the total asset as a variable of operating cash flow. All the information needed about company's performance which is three elements above, can be obtained from the official websites of Indonesian Stock Exchange.

## Statistic Descriptive

**Table 1**

|              | Minimum | Maximum | Mean     | Std. Deviation |
|--------------|---------|---------|----------|----------------|
| Stock Return | 0.00    | 294.8   | 40.4133  | 72.86011       |
| EPS          | -14.9   | 982.67  | 176.9464 | 234.56637      |
| DER          | 3.21    | 13.24   | 8.1212   | 2.16323        |
| OCF          | -1.63   | 4.33    | 1.8      | 1.19727        |

Based on table 4.1 describes about variables in this research that is about the banking companies' performance listed in Indonesia Stock Exchange condition from 2012 until 2014. Started with stock return as dependent variable, the data processing using SPSS result shows that the stock return average is 40.42 %. The maximum of stock return is 294.8% for Bank Rakyat Indonesia Tbk in 2014. Profitability variable, earnings per share, has a maximum a number of 982.67 for Bank Rakyat Indonesia Tbk in 2014, whereas the minimum is -14.90 on 2013 for earnings per share of Bank MNC internasional Tbk. For earnings per share variable average number is 176.95.

The second of independent variable is capital structure which is the use of debt to equity ratio. The minimum variable resulted from the data is 3.21 in 2014 for Bank Woori Saudara Indonesia 1906 Tbk and has maximum of debt to equity on 2013 at 13.24. This variable average is 8.13. The third independent variable which is operating cash flow to asset minimum score is -1.63% for Bank Pundi Indonesia Tbk on 2014. While, in the maximum percentage of operating cash flow is on Bank Central Asia Tbk in 2014 with 4.33% and the average for this variable is 1.80 %.

### Classical Assumption Test

#### Normality Test

This test is performed to determine whether the variables are scattered normally or not. The test procedure is done with the Kolmogorov-Smirnov test.

**Table 2**

|                      | Unstandardized Residual |
|----------------------|-------------------------|
| Kolmogorov-Smirnov Z | 1.298                   |
| Asymp.Sig (2-tailed) | 0.069                   |

From the calculation results, it is obtained that sig. is at 0.069 (can be seen in Table 4.2) or greater than 0.05; then the provisions of Ho is that the normality assumption is fulfilled.

#### Multicollinearity Test

Multicollinearity test is performed to determine the strong connection or not perfectly linear relationship or it can also be said that among the independent variables are not related. The test is to compare the value of Tolerance obtained from multiple regression calculation, if the value of tolerance is  $<0.1$  then there is multicollinearity.

**Table 3**

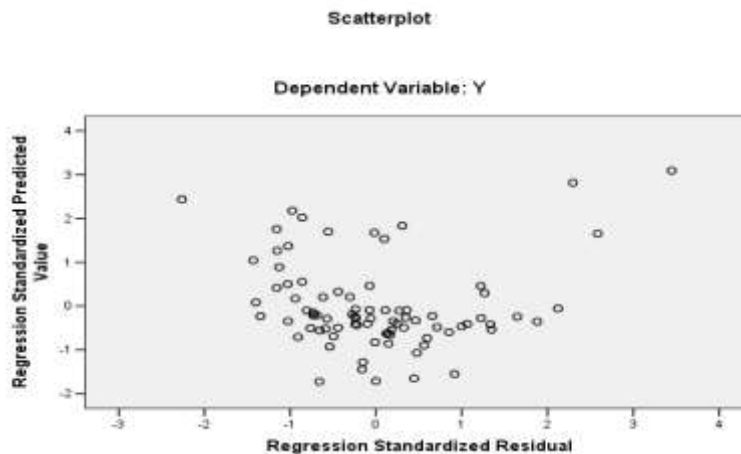
| Independent Variable | Collinearity Statistics |       |
|----------------------|-------------------------|-------|
|                      | Tolerance               | VIF   |
| EPS                  | 0.595                   | 1.681 |
| DER                  | 0.987                   | 1.013 |
| OCF                  | 0.601                   | 1.665 |

After processing data the result of each independent variable which are the tolerance of earnings per share variable at 0.595, second debt to equity ratio at 0.987, and the operating cash flow at 0.601. Based on the result of the test can be concluded that all of tolerance for the three variable is higher than 0.1. So it can be concluded that there is no multicollinearity between independent variables. Multicollinearity test can also be done by comparing the value of VIF (Variance Inflation Factor) by 10. If the value of VIF is  $> 10$  then it occurred multicollinearity. The test results of each independent variable are VIF for EPS at 1.681, VIF for DER at 1.013, and VIF for OCF at 1.665. From the test results it can be concluded that there is no multicollinearity between independent variables. Thus the absence of multicollinearity assumption can be fulfilled.

#### **Heteroscedasticity Test**

Heteroscedasticity Test is used to determine whether there is inequality deviation residual value due to the amount of value one independent variable or the different value of variance with the increasing value of the independent variable.

**Figure 1**



The result of test is obtained that spreads scatterplot diagram display and does not form a specific pattern then there is no heteroscedasticity. So it can be concluded that the residual variance has a homogeneous (constant) or in other words there are no symptoms of heteroscedasticity.

#### **Autocorrelation Test**

Autocorrelation test is to determine the correlation between the remnant that is sorted by time (as in the time series) or space (as in cross section). In the context of regression, the regression linear classic model assumes that there is no autocorrelation in the residual ( ). This is to show that the classical model assumes that the independent variable related in this observation is not affected by any other independent variable. Then the author decides to use Durbin-Watson (DW-Test).

**Table 5**

| Model | Durbin-Watson |
|-------|---------------|
| 1     | 1.733         |

Known Durbin Watson test value of 1.733 which is located between 1,719 and 2,281, it can be concluded that there is no autocorrelation assumption has been fulfilled.

### **The Result of Multiple Linear Regressions Analysis**

**Table 6**

| Independent Variable | Unstandardized Coefficients |            | Standardized Coefficients | t-statistic | Probability |
|----------------------|-----------------------------|------------|---------------------------|-------------|-------------|
|                      | B                           | Std. Error | Beta                      |             |             |
| (Constant)           | -32.283                     | 20.202     |                           | -1.598      | 0.114       |
| EPS                  | 0.212                       | 0.026      | 0.683                     | 8.041       | 0.000       |
| DER                  | 1.798                       | 2.220      | 0.053                     | 0.810       | 0.420       |
| OCF                  | 11.429                      | 5.140      | 0.188                     | 2.223       | 0.029       |

Multiple linear regression analysis is used to analyze the relationship and influence between a dependent variable of two / more independent variables. Then performed multiple linear regression analysis between the following variables: Earnings per Share, Debt to Equity Ratio, and Operating Cash Flow to Stock Return.

$$Y = -32,283 + 0,212 X_1 - 1,798 X_2 + 11,429 X_3$$

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

**Table 7**

| R     | R Square | Adjusted R Square |
|-------|----------|-------------------|
| 0.811 | 0.657    | 0.644             |

The coefficient regression model of determination (adjusted  $R^2$ ) is 0.644. It can be concluded that the contribution of independent variables consisting of variable Earnings per Share, Debt to Equity Ratio, and Operating Cash Flow can affect the dependent variable Stock Return by 64, 4% and the 35,6% are explained by other factors not addressed in this study. In addition, based on Table 4.6, it is known that the value of the coefficient R that shows the relationship between the dependent variable and independent variables. In this study, the magnitude of the variable Earnings per Share, Debt to Equity ratio and Operating cash flow to Stock Return is 0.811, indicating a strong relationship or influence.

## **DISCUSSIONS**

### **Profitability and Stock Return**

Based on the results of statistical analysis in this study found that the hypothetical one, that profitability has a significant positive effect on stock returns in the banking company, measured by Earnings per Share. Thus, the hypothesis that has been formulated is accordance with the results, that profitability has a positive effect on stock returns. The statistical results confirm that the information of profitability described by earnings per share can describe earnings for each share to be received by shareholders. Companies with lower earnings per share means earnings outlook for the future is also low, so it will provide a level of return that is too low, otherwise the company with high prospects certainly give more confidence to investors that company providing the optimum level of return and consistent.

The results are consistent with the existing theory which stated that the presentation of earnings information through the financial statements is an important measure of corporate performance as compared to measuring performance based on other features. Also in this study can be in accordance with the nature of investors that want to benefit as much as possible by making the investment. EPS information can describe earnings for each share to be received by shareholders. Companies with lower EPS means earnings outlook for the future is also low, so it will provide a level of return that is too low, otherwise the company with high prospects certainly give more confidence to investors in providing the optimum level of return and consistent.

### **Capital Structure and Stock Return**

Results of statistical analysis in this study showed that the risk of the company in the form of capital structure, as measured by Debt to Equity Ratio poses no significant positive effect on stock returns in the banking companies listed in Indonesian Stock Exchange For the years of 2012 until 2014, which means that the capital structure projected by debt to equity ratio is inappropriate with the hypothesis that has been made, namely capital structure has a negative impact on stock returns.

In this study using a sample of banking companies in which the company is a type of companies that process or run a business by using funds from a third party. Third party funds are considered by the company is the company's debts. On this research to measure capital structure using the ratio of Debt to Equity Ratio, the ratio that compares how the composition of the debt and equity of a company. the types of companies like this by using a ratio that compares the debt and capital is somewhat less effective because the company is already dominated by debt, maybe if measurements are in use not only by using DER results can probably be different.

The capital structure is characterized by the high DER Company, means the company has more debt than capital (Tandelilin, 2001). The higher of DER shows the composition of total debt (short-term and long-term) is greater than the total equity capital, thus impacting the greater of burden on companies to outsiders (creditors). The increased burden on the creditor shows the company's capital resources are very dependent on outsiders, thereby reducing investor interest in investing to the company. The decline of the interest of investor will impact on the company's stock price, so the return generated will also decrease.

### **Operating Cash Flow and Stock Return**

Based on the results of the statistical data, it can be seen that the Operating Cash Flow in the banking company has a significant positive effect on stock returns. While the hypothesis has been made is accordance with the results of the research, which the operating cash flow has a significant positive effect on stock returns. The results of this study supported the theory expressed by Brigham (2001) that the cash flow generated revenue from dividends stock is expected in the future. Operating cash flow is cash flows arising from operational activities of

the company. Operating cash flow is an indicator of a company's ability to repay debt and pay dividends and according to Kamsir (2002) third party funds are funds from the broader community which is the most important source of funds for the operations of a bank and is a measure of success if the bank is able to finance its operations from this funding source.

Operating cash flow is the cash arising from the operations of the company relating to the cost, income and expenses. Cash is what illustrates how companies gain profit and turn it into cash so that operating cash flow is an indicator of the company's ability to generate to repay the loan, to pay dividends and make new investments without recourse to external sources of financing. Investors can assess a company's ability to make payments of dividends from the cash flow information. So, that when the operating cash flow is in good condition, the ability of the company to pay the debt and the dividend will also be good for shareholders.

## **E. CLOSING REMARKS**

### **Conclusions**

This study was performed to determine which variables that have significant influence toward companies Stock Return. The author chooses Earning per Share, Debt to Equity Ratio and Operating Cash Flow as the independent variables while Stock return is used as the dependent variable. Based on the calculation of multiple linear regression analysis, it can be seen: the first conclusion is Simultaneous influence of every independent variable toward Stock Return is tested using the F-test. From the F test found that the independent variables influence simultaneously the dependent variable. Then the second for determining which variable that has significant partial influence toward Stock Return, this research used the T test.

The T test result showed that there are two variables that have significant influence toward Stock Return, which are Earning per Share and Operating Cash Flow. Then after doing the T test that find the result gained that the Earning per Share variable have the biggest score of T value and beta coefficients. Therefore, EPS variable is apparently has dominant and the strongest influence compared to other variables.

### **Research Limitations**

There are several other variables that have not been used to analyze stock returns influencing factors. Furthermore, the sample used in this study is still small as the number of banking companies are 42 companies which can be sampled in this study by only 28 companies. As well as the year that is in use as research is still relatively short.

### **Suggestions for Future Research**

This study only uses three variables as the independent variables, which are earning per Share, Debt to Equity Ratio, and Operating Cash Flow. Therefore, subsequent research can consider the other variables that can be tested with different analytical techniques and also can add not only to measure the value of operating cash flow. There are still a lot of cash flow aspects, such as: cash flow investing and financing cash flows. Third cash flows are equally linked in the financial statements, so it can affect stock returns. Adding to extend the observation period and the category of companies that were sampled throughout the study such as all service companies listed on the Indonesian stock exchange is also advisable.

## REFERENCE LIST

- Brealey, R. A. (2004). *Fundamentals of Corporate Finance (International ed)*. Newyork, NY: McGraw-Hill.
- Brigham, E. F. (2010). *Dasar-Dasar Manajemen Keuangan ( Essential of Financial Management )*. Jakarta: Salemba Empat.
- Christiawan, P. &. (2004). Pengaruh Economic Value Added, Residual Income, Earnings dan Arus kas Operasi Terhadap Return yang di terima oleh Pemegang saham ( Studi pada Perusahaan Manufaktur Yang terdaftar Di Bursa Efek Jakarta ). *Jurnal Akuntansi & Keuangan Vol 6*, 140-166.
- Fakhruddin, H. M. (2008). *Istilah Pasar Modal A-Z*. Jakarta: Gramedia.
- Ghi, T. N. (2015). The impact of capital structure and Financial Performance on stock return of The firms in hose. *the international journal of information research and review*, 734-737.
- Ghozali, I. (2006). *Aplikasi Analisi Multivariate dengan Program SPSS*. Semarang: Badan Penerbit Universitas Diponegoro.
- Gujarati, D. N. (2007). *Dasar-dasar Ekonometrika Jilid 2*. Jakarta: Erlangga.
- Hanafi, M. H. (2008). *Manajemen Keuangan*. Yogyakarta: BPFE.
- Hanafi, M. M. (2007). *Analisi Laporan Keuangan*. Jakarta: Erlangga.
- Helen. (2005). the effect of accounting and non-accounting information to the initial return on the Jakarta Stock Exchange. *international journal of information research and review*.
- Horne, J. C. (2002). *Fundamentals of Financial Management ( 12 ed )*. London: Prentice Hall.
- Husnan, S. (2003). *Dasar-dasar Teori Portfolio dan Analisi Sekuritas*. Yogyakarta: BPFE UGM.
- Jones, C. .. (2000). *Investment: Analysis and Management (7th ed)*. New york city, NY: John Wiley & Sons.
- Kasmir. (2008). *Bank dan Lembaga Lainnya (Edisi Revisi)*. Jakarta: PT Rajagrafindo Persada.
- Lievia Angle Pinkan komala, P. i. (2013). the effect of profitability ratio, liquidity and debt towards Investment return. *journal of business and management*, 1176-1186.
- Mishikin, F. S. (2000). *The Economics of Money, Banking and Financial Markets (6th ed)*. Newyork, NY: Pearson.

- Octavia, V. (2008). *Analisis pengaruh total arus kas, komponen arus kas dan laba akuntansi terhadap harga saham di bursa efek jakarta*. Tesis: program pasca sarjana universitas diponegoro, Semarang.
- Okuda, L. T. (2015). Effects of State ownership on companies' capital structure and profitability: Estimation analysis before and after the lehman shock. *Journal of Asian Economics*.
- Petria, N. C. (2013). Determinants of banks profitability: evidance from EU 27 Banking. *Economic and Finance*, 522-523.
- Rosa, M. (2012). *Pengaruh Profitabilitas, OCF dan EVA Terhadap Return Saham*. Skripsi: Universitas Negri Padang.
- Sccrot, J. W. (2011). Banking Profitability Determinants. *Economic and Finance*, 209.
- Sekaran, U. &. (2010). *Research Methods for Business: A skill Building Approach (5th ed)*. New York, NY: John Wiley and Sons.
- Simanungkalit, M. (2009). *pengaruh profitabilitas dan rasio leverage keuangan terhadap return saham pada perusahaan makanan dan minuman terbuka di indonesia*. skripsi: Universitas sumatra utara, medan.
- Stephen A. Ross, R. W. (2010). *Corporate Finance (International ed)*. Singapore: McGrow.Hill.
- Sugiyono. (2014). *Metode Penelitian Kuantitatif, Kualitatif, dan R&D*. Bandung: Alfabeta.
- Sunariyah. (2006). *Pengantar Pengetahuan Pasar Modal*. Yogyakarta: UPP AMP YKPN.
- Syamsyuddin, L. (2004). *Manajemen Keuangan Perusahaan:Konsep Aplikasi Dalam perencanaan, pengawasan dan Pengambilan Keputusan*. Jakarta: PT Rajagrafindo Persada.
- Tandellin. (2001). *Analisis Investasi dan Manajemen portofolio*. Yogyakarta: BPFE Yogyakarta.
- Wisya Retno Utami, S. H. (2015). the effect of internal and external factors on stock return: empirical evidance from indonesian construction subsector. *assian journal of business and management*, 2321-2802.
- Wu, B. N. (2014). Global banks and internal capital marke: evidence from bank-level panel data in emerging economies. *journal of multinational financial management*, 79-94.