

Can Financial Ratios Improve Stock Returns in Manufacturing Companies?

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Abstract

For an investor, investing in the selected securities is undoubtedly expected to provide a rate of return that is by the risks that investors must bear. Objectively, this study aims to determine the effect of profitability ratios, liquidity ratios, leverage ratios, activity ratios, and market ratios on stock returns. This research is expected to add empirical evidence regarding profitability ratios, liquidity ratios, leverage ratios, activity ratios, and market ratios to stock returns. The type of research used in this research is verification research using the Explanatory Survey method using Inferential Statistics research techniques. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The sampling technique was purposive sampling, based on the specified criteria to obtain a sample of 62 manufacturing companies whose data were by research needs. The research data obtained were analyzed using the Eviews statistical tool. This study finds that the resulting Return on Assets (ROA) will affect the number of dividends distributed. The greater the ratio of net income and total assets, the greater the dividends distributed to shareholders. The Current Ratio cannot be used as a basis for determining investors to buy and sell shares or investments. This study also found that the higher the level of Debt Equity Ratio in a company, the lower the stock returns received by investors in the company, and vice versa. Furthermore, the more significant the company uses its assets to generate total net income, the higher the stock return value. When the Price Book Value increases, the increase in stock returns will also increase.

Keywords: Profitability Ratio; Liquidity Ratio; Leverage Ratio; Activity Ratio; Market Ratio; Stock Return.

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Introduction

In this modern economic era, companies need additional capital to boost the company's operational performance (Ahmad et al., 2018). One way for companies to obtain additional capital is to offer ownership of the company to the public (go public). A capital market is a place for companies to raise capital by offering their shares to the public (Muhammad & Rahim, 2019). Community/public involvement in the capital market is by buying shares provided in the capital market. Thus, it can be said that buying and selling transactions occur in the capital market, like the market for goods and services in general. The capital market has two functions, namely the economic function and the financial function. The economic role of the capital market is to provide facilities to transfer funds from parties who have excess funds to those who need funds (Prasetia, 2017). The financial function of the capital market is to provide the funds required by other parties without having to be directly involved in the company's operations (Sri Handini & Erwin Dyah Astawinetu, 2020).

In capital market activities, both parties with funds (investors) and those who need funds (issuers) will have different interests. For issuers, the capital market is an alternative to getting additional funds without waiting for results from operational activities. In contrast, the capital market is an alternative to investing and getting optimal profits (Nadiyah & Suryono, 2017). An investment certainly has its risks. Investors cannot know what chance they will receive in investing. Therefore, an investor requires analysis in investing their funds and minimizing risk (Sachse et al., 2012). For an investor, investing in the selected securities is undoubtedly expected to provide a rate of return that is under the risks that investors must bear. For investors, this level of return is the main factor because the return is the result obtained from an investment (Purnamasari, 2015).

One of the most popular securities in the capital market is stock securities. Shares are securities as proof of participation or ownership of individuals or institutions in the company (Gompers & Metrick, 2001). Meanwhile, (Sri Handini & Erwin Dyah Astawinetu, 2020), shares are proof of taking part or participation in a public company. Stocks considered good are stocks that can provide a realized return that is not too far from the expected return. Investors who choose to invest in the capital market in the form of stock securities are investing in the company's prospects. Companies that are members of the capital market must be able to increase their company value because high company values certainly provide a good picture and large return opportunities (Hidayah, 2015). Suppose the company considers all investors rational investors with increased return expectations. In that case, more and more investors will be interested in buying securities issued by the issuer company so that the funding objectives desired by the company through the capital market are also fulfilled.

The return value of each security is different from one another. Not all securities will provide the same return for investors. The return of a security is determined by many things, such as the company's performance and its strategy to manage its profits (Izuddin, 2020). A company is considered to be in financial failure if it is unable to pay its obligations at maturity even though its total assets exceed its total liabilities at maturity. (Aljufri, 2019) argues that the conditions that make investors and creditors feel worried if the company experiences financial distress (financial distress) lead to bankruptcy. Suppose the company is indicated to be in economic failure. In that case, it means that the company cannot generate profitable returns for investors, and in the end,

its share price will decrease (Yuliarni et al., 2016).

In the capital market, the uncertain return that an investor will receive makes an investor must choose very carefully the investment alternative that must be selected. In the capital market, not all shares of companies with a good profile will provide good returns to investors, so a more in-depth analysis is needed (Aryanti & Mawardi, 2016). A company may experience fluctuating returns due to various factors, both micro and macro.

According to the IHS Markit version, the Indonesian manufacturing index for February 2021 was recorded at 50.9. Although down from the previous month, Indonesia's manufacturing index is still at the expansion level. Indonesia's manufacturing index was recorded for the fourth month at the expansion level. Big-cap stocks primarily influenced the decline in the manufacturing sector index. For example, PT Astra International Tbk (ASII) shares, the largest constituent in the various industry sectors, have declined 5.81% YTD. Meanwhile, big cap stocks in the consumer goods sector, such as PT Unilever Indonesia Tbk (UNVR), PT Indofood CBP Sukses Makmur Tbk (ICBP), PT Indofood Sukses Makmur Tbk (INDF), PT HM Sampoerna Tbk (HMSP), and PT Gudang Garam Tbk (GGRM) is also still in a weakening trend. UNVR, ICBP, INDF, HMSP, and GGRM fell 12.7%, 24.78%, 18.71%, 32.13%, and 33.54%, respectively, since the start of the year, citing RTI data. Defensive sectors such as consumer goods tend to be less attractive in the early recovery cycle than today. Therefore, investors prefer to hunt for stocks that have the potential to benefit from the economic recovery (www.investors.kontan.co.id, 2021)

Based on these facts, it can be said that many factors affect the movement of stock returns. Investors need to conduct an in-depth analysis of these changes. One way is to conduct a fundamental analysis based on financial ratios (Ma et al., 2019). Financial ratios generated from financial statements are the company's fundamental factors. Financial ratios are used to perform fundamental analysis. (Asia, 2020) argues that companies that go public must provide relevant financial reports regarding their financial ratios; this is stated in the Decree of the Chairman of Bapepam Number KEP-51/PM/1996 issued on January 17, 1996. Financial statements are an essential factor in determining which securities to choose as investment options for investors. In addition, financial reports are the easiest and cheapest analytical tool for investors/potential investors to obtain (Nurwanah et al., 2021). In addition, accounting reports are sufficient to describe the extent of the development of the company's condition and what has been achieved (Rajan & Zingales, 2003). Financial reports are often used as a reference for assessing the performance of issuer companies (Magli et al., 2018). (Rahayu et al., 2016) said that financial statements can be used to predict the financial difficulties experienced by the company, the results of operational activities, the company's financial performance in the past and the future, and a guide for investors regarding the company's performance in the past and future.

Signaling theory explains how management success or failure signals are conveyed to owners (Alsos & Ljunggren, 2017). Signal theory is concerned with information asymmetry. The positive thing in signaling theory is that companies that provide good information will distinguish themselves from companies that do not have "good news" by informing the market about their condition, signals about the promising future performance given by companies whose past financial performance was not good. Will be trusted by the market (Khasanah & Aryati, 2019). According to (NPS Dewi & Putra, 2013), information published as an announcement will signal investors in making investment decisions. When information is announced, market participants first interpret and analyze the information as a good signal (good news) or a wrong signal (bad

news). If the information announcement is considered a good signal, investors will be interested in trading stocks; thus, the market will react, which is reflected through changes in stock trading volume (Choriliyah et al., 2016). The annual report is one type of information issued by the company that can be a signal for parties outside the company. The more comprehensive information received by investors will increase investor confidence in the company (Setiawati & Lim, 2018). With a high level of confidence, investors will undoubtedly respond positively to the company in the form of stock price movements that tend to rise. Thus, the level of disclosure made by the company will affect the movement of stock prices, which tend to rise, which will also affect the volume of shares traded. With stock price movements that tend to increase, of course, it will affect the increase in the company's stock returns. Financial ratios can be grouped into 5 (five) types: profitability ratios, liquidity ratios, leverage ratios, activity ratios, and market ratios. The main attraction for company owners (shareholders) in a company is profitability. In this context, profitability means the results obtained through management's efforts on the funds invested by the company owner (Ilhamsyah & Soekotjo, 2017).

Profitability is a company that can be measured by connecting the profits or profits obtained from the company's main activities with the assets or assets used to generate profits (Amin, 2015). According to (Yung & Root, 2019), profitability results from the policies and decisions taken by management. The profitability ratio in this study is associated with the return on assets (ROA) ratio. If the capital market considers all investors to be rational investors, these investors will always choose to invest in companies with high profitability. Because of the possibility of the company making high profits, the expected return is also high (WP Setiyono & Meiliza, 2018).

Investors and potential investors will pay attention to profitability and risk factors in investing. This is because the stability of stock prices will affect dividends and returns received by investors in the future. If the company's ability to generate profits is high, then the stock price will also increase, which will impact increasing stock returns in the future (Karim, 2016). Prosperity (wealth) investors will depend on the expected return and risk of the estimated cash flow in the future. The company's financial statements describing past results have been sufficient to guide future activities. However, profitability analysis based on past rates of return can provide valuable insights and information for management and analysts outside the company (Palepu et al., 2020). The study of the relationship between ROA and stock returns is often described as a significant relationship. This statement is supported by research conducted by (Basalama et al., 2017; AR Dewi, 2019; AR Dewi, 2019) which found that profitability has a positive and significant effect on stock returns. However, (E. Setiyono & Amanah, 2016) found that ROA was insignificant to stock returns.

The liquidity ratio is often associated with the Current Ratio (CR), a way to test the level of protection obtained by lenders centered on short-term loans given to companies to fund the company's operational activities (Kim et al., 2019). The liquidity ratio provides an overview of the financial position in the short term but is also used to check the efficiency of working capital used in the company. This ratio is often referred to as the working capital ratio. Not only banks and short-term creditors are interested in liquidity ratio figures, but the liquidity ratio is also helpful for long-term creditors and shareholders who ultimately or at least want to know the prospects of dividends and interest payments in the future (Chintyana et al., 2020). CR has a positive and significant effect on the value of stock returns. The higher the CR value, the better the company can pay off its short-term obligations (Tumonggor et al., 2017). The better the company's ability

to pay off its obligations, the smaller the risk of liquidation experienced by the company; in other words, the smaller the risk that its shareholders must bear. Research conducted by (Supriantikasari & Utami, 2019) and (NLYAP Dewi et al., 2020) found that the current ratio positively affects stock returns. In contrast (E. Setiyono & Amanah, 2016; Tumonggor et al., 2017) found that CR has no significant effect on stock returns.

Solvency ratios (leverage ratios) measure the company's ability to meet its long-term obligations (Bordeianu & Radu, 2020). The solvency ratio is usually associated with the Debt-to-Equity Ratio (DER) ratio. According to (Cerqueiro et al., 2016), DER is an attempt to show the relative proportion of lenders' claims to ownership rights and is used to measure the role of debt. (Amraoui et al., 2018) explains that financial solvency is a ratio that measures the extent to which fixed-income securities (debt and preferred stock) are used in the company's capital structure. Rational investors tend to avoid risk, but if a company uses debt in its capital structure, its investors will bear financial risk. Financial risk is an additional risk borne by investors because the company uses financial solvency (Permana & Rahyuda, 2019). The empirical study of the relationship between DER and stock returns is described as a significant relationship to the value of stock returns. The results of this study are supported by research conducted by Research results (Mende et al., 2017; Nurmasari, 2018) which found that DER had a negative and significant effect on stock returns. The higher the DER ratio, the smaller the rate of return. The risk borne by investors will be higher because a high level of debt means a higher interest expense which will reduce risk and result in lower stock returns. However, (Purba & Marlina, 2019; Devi & Artini, 2019) found that DER had no significant effect on stock returns.

The activity ratio is used to measure how effective the company is in managing its assets (Nasution et al., 2018). If the company has too many assets, the company will require a high cost of capital, which in turn causes profits to decline (Sharfman & Fernando, 2008). The activity ratio is often associated with Total Assets Turnover (TAT). This ratio is used to measure the turnover of all company assets. If the TAT value is increased, it means that there is an increase in the company's net sales, an increase in the company's net sales will encourage an increase in profit which will be responded to by an increase in the company's stock price which will ultimately increase the company's stock return (Prasetyo & Kusuma, 2017). Empirical studies regarding the relationship of TAT with stock returns are described as significant relationships with stock returns. The results of this study are supported by (Hanivah & Wijaya, 2018; Lestari & Cahyono, 2020; Kurniani, 2021). The greater the Total Assets Turnover (TAT) value indicates that the company's sales value is increasing and the greater the expectation of getting more significant profits.

The last ratio is the market ratio. One type of market ratio often associated with stock returns and is also used in this study is Price to book value (PBV), which is the ratio between stock price and book value. PBV is a comparison between the stock price and the book value given by the financial market to measure the value of the company, or Price to Book Value is the market ratio used to measure the performance of the stock market price against the book value of a stock (Cahyaningrum & Antikasari, 2017). The higher the PBV value, the higher the company is valued by investors compared to the funds invested in the company. Thus, the increase in PBV value will positively affect stock prices. With an increase in stock prices, stock returns are also expected to increase. Thus, the PBV value can be used as an investment strategy for potential investors. Research conducted by (Dwialesi, and Juanita Bias, 2016; Ristyawan, 2019) concluded that Price to book value positively affected stock returns, while research conducted (Mahardika, I. Nyoman

Febri, 2017) found that Price to book value had a positive effect on stock returns. Positive but not significant to stock returns.

The purpose of the study was to determine the effect of profitability ratios, liquidity ratios, leverage ratios, activity ratios, and market ratios on stock returns. This research will add empirical evidence regarding profitability ratios, liquidity ratios, leverage ratios, activity ratios, and market ratios to stock returns. The results of this study are expected to be a reference or comparison for future research. They can be a consideration for investors who invest in the Indonesian capital market in investing their funds in manufacturing company shares on the IDX.

Research Design and Method

The type of research used in this research is verification research using the Explanatory Survey method using Inferential Statistics research techniques. The types and methods of this research are used to explain phenomena in the form of relationships between variables. This study involves all manufacturing companies listed on the Indonesia Stock Exchange for 2019-2021. The sample in this study was selected using a purposive sampling method with the following criteria:

1. Manufacturing companies listed on the Indonesia Stock Exchange in 2019, 2020, and 2021.
2. Manufacturing companies that publish complete financial reports from 2019, 2020, and 2021 according to the data required in the research variables.
3. Manufacturing companies with positive net income (profit after tax) in 2019, 2020, and 2021.

Based on the specified criteria, there are 62 manufacturing companies whose data are by research needs. This study uses secondary data obtained from the mass media, data supply companies, stock exchanges, data used by researchers in previous studies, data used in statistical software, and so on. The stages of testing that will be carried out are normality test, autocorrelation test, heteroscedasticity test, multicollinearity test, coefficient of determination test, and least squares test.

Table 1. Operationalization of Variables and Measurements

Variable	Indicator/Item	Major Reference
Stock Returns	$TR = \frac{Pt - Pt - 1 + Dt}{Pt} \times 100\%$	(Almira & Wiagustini, 2020)
Profitability Ratio	$Return\ On\ Asset\ (ROA) = \frac{profit\ after\ tax}{total\ asset} \times 100\%$	(Nadiya, 2019)
Liquidity Ratio	$Curret\ Ratio\ (CR) = \frac{current\ assets}{curret\ liabilities} \times 100\%$	(Aisah & Mandala, 2016)
Leverage Ratio	$Debt\ To\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Capital} \times 100\%$	(Gunadi & Kesuma, 2015)
Activity Ratio	$Total\ Assets\ Turn\ Over = \frac{Net\ Sales}{Total\ Assets} \times 100\%$	(Ahmad Taslim, 2016)
Market Ratio	$PBV = \frac{Closing\ Stock\ Price}{Stock\ Book\ Value} \times 100\%$	(Manning et al., 2014)

Results and Discussion

Statistical Result

The results of data normality using the normal probability plot graph found that the data in this study were normal and could be used. Figure 1 shows the Jarque-Bera value of 4.98682 and a significance of 0.44633 or 44.63% > 5% significance level, meaning that the research variables are normally distributed.

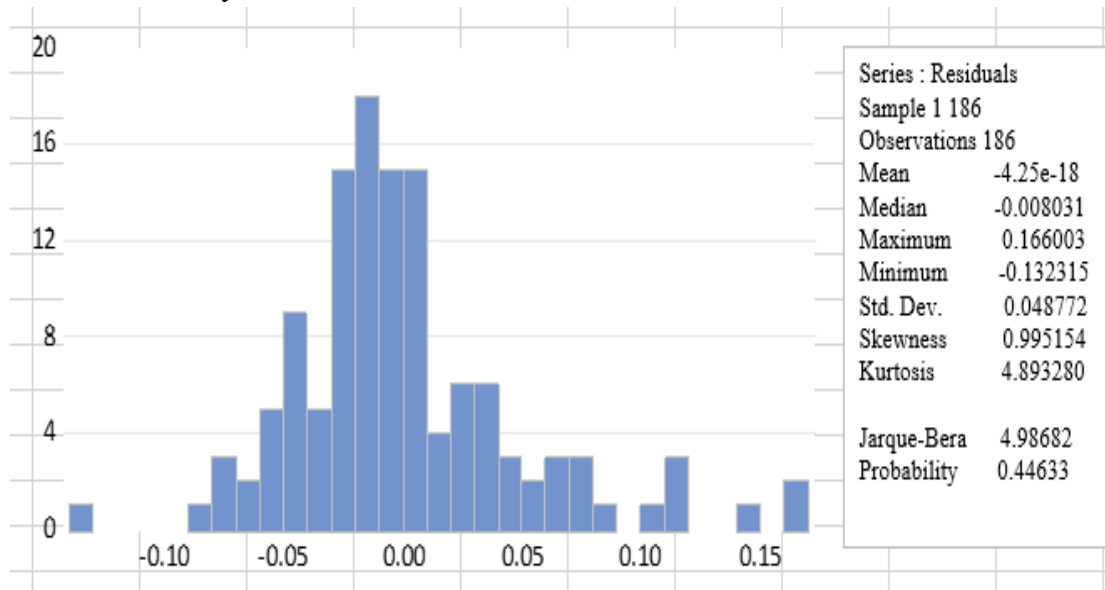


Figure 1. Normality Test Results

The autocorrelation test is used to determine whether there is a deviation from the classic assumption of autocorrelation, namely the correlation between the residuals in one observation with other observations in the regression model. A good regression model is a regression model that is free from autocorrelation. The results of the autocorrelation test are seen from the Durbin-Watson Stat value, which is 1.835900. This value is the Durbin Watson (DW) value which is between -2 and +2, so it can be concluded that there is no autocorrelation symptom. Then the heteroscedasticity test is carried out to see whether there is a disturbance that appears in the regression function. This can be done using the following Arch test:

Table 2. Autocorrelation Test Result

Description	Mark
Durbin-Watson stat	1.835900

The heteroscedasticity test aims to test whether there is an inequality of variance in the regression model from the residuals of one observation to another observation. Prob value. From F count 0.085 and Prob. The Chi-Square count is 0.768, meaning that from all tests, it is greater than the 5% significance value, then there is no heteroscedasticity in the equation model.

Table 3. Heteroskedasticity Test Arch Results

F. Statistics	0,085	Obs* R-Square	0,770
Prob. F	0,087	Prob. Chi-Square	0,768

Multicollinearity testing determines whether the regression model found a correlation between independent variables or independent variables. So it can be concluded that in the regression model, there is no multicollinearity problem because all correlation coefficient values between independent variables are less than 0.8.

Table 4. Multikolinearitas Test Results

No	Auxiliary	Variance Inflation Factors (VIF).
1	Profitability Ratio	1,399
2	Liquidity Ratio	1,342
3	Leverage Ratio	1,323
4	Activity Ratio	1.187
5	Market Ratio	1.194

Adjusted R square (Adj.R²) value of 0.375 indicates Total Asset Turnover, Debt to Equity Ratio, Current ratio and Return on Equity have an influence of 35.70%, the remaining 64.30% of the firm value is influenced by other factors not examined in this study. this research.

Table 5. Coefficient of Determination

Info	Coefficient of Determination
R Squared	0,571
Adj. R-Squared	0,560

Table 6. Least Squares Test

Variable	Coefficient	t-Statistic	Prob.
C	0,032	1,572	0,117
Profitability Ratio	0,038	2,124	0,035
Liquidity Ratio	0,048	1,892	0,060
Leverage Ratio	-0,002	-3,239	0,001
Activity Ratio	0,009	3,408	0,000
Market Ratio	0,009	3,561	0.000

Based on table 6, the formulation of the Least Squares Model obtained is as follows:

$$Y = 0.032 + 0.038 X_1 + 0.009 X_2 - 0.002 X_3 + 0.022 X_4 + 0.009 X_5$$

The results of the Profitability ratio value (X₁) with t-count greater than t-table (2.124 > 1.653) with a significance level (p-value) = 0.035 (< 0.05). Because the p-value < α (5%) and the coefficient are positive and significant, H₁ is accepted, meaning that the profitability ratio has a positive and significant effect on stock returns. The results of the Liquidity ratio value (X₂) with t-count greater than t-table (1.892 > 1.653) with a significance level (p-value) = 0.060 (> 0.05). Because the p-value < α (5%) and the coefficient are positive and significant, H₂ is rejected, which means that the liquidity ratio has a positive but significant effect on stock returns. The results of the leverage ratio value (X₃) with t-count greater than t-table (-3,239 > 1,653) with a significance level (p-value) = 0.001 (< 0.05). Because the p-value < α (5%) and the coefficient are negative

and significant, then H3 is accepted, which means that the leverage ratio has a negative and significant effect on stock returns. The results of the activity ratio value (X4) with t-count greater than t-table ($3,408 > 1,653$) with a significance level (p-value) = 0.000 (< 0.05). Because the p-value $< \alpha$ (5%) and the coefficient are positive and significant, H4 is accepted, which means that the activity ratio has a positive and significant effect on stock returns. The results of the market ratio value (X5) with t-count greater than t-table ($3.561 > 1.653$) with a significance level (p-value) = 0.000 (< 0.05). Because the p-value $< \alpha$ (5%) and the coefficient are positive and significant, then H5 is accepted, which means that the market ratio has a positive and significant effect on stock returns.

Discussion

Testing the first hypothesis found that the profitability ratio had a significant effect on stock returns. This means that the amount of Return on Assets (ROA) generated will affect the amount of dividends to be distributed. The higher the net income and total assets ratio, the greater the dividends to shareholders. The level of profit is the primary consideration for investors in choosing stocks. Companies with a high-profit level will tend to be more attractive to investors. This affects the company's stock price, which tends to increase along with the increase in dividends to be distributed. The increase in the company's stock price will also affect the number of capital gains that shareholders will obtain. The results of this study support the signal theory as proposed by (Dewi & Putra, 2013); information published as an announcement will provide a signal for investors in making investment decisions. When information is announced, market participants first interpret and analyze the information as a good signal (good news) or a wrong signal (bad news). If the information announcement is considered a good signal, investors will be interested in trading stocks; thus, the market will react, reflected through changes in stock trading volume (Choriliyah et al., 2016). The increase in ROA is a positive signal to increase the attractiveness of investors to the company to invest and make the company much in demand by investors because the rate of return on income is getting bigger. If the stock price increases, the return on the stock will also increase, so ROA has a positive effect on stock returns. The results of this study are in line with research (Basalama et al., 2017; AR Dewi, 2019) which found that profitability had a positive and significant effect on stock returns. Investors commonly use ROA to measure how the company's performance in managing available assets effectively generates profits from investments made by shareholders. However, (E. Setiyono & Amanah, 2016) found that ROA was insignificant to stock returns.

Testing the second hypothesis found that liquidity had a positive but not significant effect on stock returns. This means that investors do not consider the Current Ratio in investing in a company, and in general, investors are more interested in investing in companies with high profits. A high CR indicates a good guarantee for short-term creditors. Whenever the company can pay off its short-term financial obligations, creditors can consider providing loans to the company. However, for investors, CR does not influence because investors only see the company's business activities without considering the company's liquidity. The relationship between signal theory and liquidity is that a company that can pay off or pays its short-term obligations on time means that the company is in a liquid state. A liquid company indicates that the company is good or has good growth. If the company's growth is good, it will impact stock prices and stock returns. Of course,

this can be used as a signal to investors in considering whether to invest in a company as expected or not. The results of this study are under research conducted by (E. Setiyono & Amanah, 2016; Tumonggor et al., 2017), finding that CR has no significant effect on stock returns. Where investors do not favor the situation, CR cannot be the basis for determining investors to buy and sell shares or investments. However, in contrast to (Supriantikasari & Utami, 2019; NLYAP Dewi et al., 2020), the current ratio has a positive and significant effect on stock returns. The value of the sizeable Current Ratio owned by the company can be used to cover its short-term debts. However, a high Current Ratio also reflects that the company has accumulated too much of its assets in cash, inventories, and current liabilities, which means that the company is less able to rotate its assets.

The results of testing the third hypothesis state that the Debt-to-Equity Ratio has a negative and significant effect on Stock Return; this means that the higher the DER level in a company, the lower the stock return received by investors in the company, and vice versa. The increase in DER was due to the value of own capital being much smaller than debt from external parties. This will cause the company to depend on creditors, making investors hesitate to invest in the company because of the high debt risk. A high Debt to Equity Ratio hurts the company's performance because the higher the debt level means; the company's interest expense will be more significant and reduce profits and have an impact on decreasing stock returns. The larger the DER will also indicate that the composition of the total debt is more significant than the total equity. It will increase the level of investor risk because this will impact decreasing stock prices. The results of this study are by the Signaling Theory. With the signal given by the company in the form of information, investors will know how much debt the company has. The higher the solvency, the more significant the company's ability to fulfill all its obligations with its capital. Where signal theory plays a role in providing information to investors in considering investing in shares in the company, companies with high debt will have a considerable risk; even the company can go bankrupt. This will cause investors to be reluctant to invest their funds and cause a decline in stock prices; then, stock returns will also fall. Investors tend to avoid stocks with a high DER value because a high DER value reflects the company's relatively high risk. The higher the DER reflects the company's high debt, thereby increasing the risk accepted by investors due to the debt interest expense borne by the company. Seeing this, investors tend not to invest in the company so that there is a decrease in stock prices, which has an impact on the decline in the company's stock returns.

The fourth hypothesis results find that Total Assets Turnover (TATO) has a positive and significant effect on stock returns, meaning the more influential the company is in using its assets to generate total net income. The more effectively the company uses its assets to generate net income, the better its performance. Total asset turnover shows how effectively the company uses all assets to create sales about profit. The higher the effectiveness of the company using assets to obtain sales, the company's profit will be more significant. This will show the company's performance is getting better. The better the company's performance impacts the company's stock price, the higher the stock price and the higher the expected return. The results of this study support the signaling theory, which explains that if a company can produce high activity, the company can be said to have good performance. High activity indicates the higher the effectiveness of the

company in using assets to obtain sales, where it is expected that the company's profit will be more significant; this will show the company's performance is getting better. The better the company's performance impacts the company's stock price, the higher the stock price and the higher the expected return. This can be used as a signal to investors in making decisions. With this signal, investors can see and analyze whether they will get the expected stock return after investing shares in the company. The results of this study are supported by (Hanivah & Wijaya, 2018; Lestari & Cahyono, 2020; Kurniani, 2021). The greater the Total Assets Turnover (TAT) value indicates that the company's sales value is increasing and the greater the expectation of getting more significant profits.

The results of testing the fourth hypothesis indicate that the market ratio has a positive and significant effect on stock returns. This means that the increase or decrease in PBV will be in line with the increase or decrease in stock returns of manufacturing companies. The higher the PBV, the more successful the company is in creating value for shareholders. The higher the company's value, the more interested investors are in investing. The higher the Price to Book Value (PBV) ratio, the more successful the company is in creating value for shareholders. It is advisable to choose stocks with a low PBV ratio because this situation allows investors to obtain capital gains when the stock price rebounds. The results of this study are by the signaling theory, wherewith the information obtained from the signals given by the company; investors will know how much the company's value is. The better the company's value, the more interested investors will be in investing their funds. The stock price will rise, and stock returns will also increase. Investors tend to avoid stocks with a high DER value because a high DER value reflects the company's relatively high risk. The higher the DER reflects the company's high debt, thereby increasing the risk accepted by investors due to the debt interest expense borne by the company. Seeing this, investors tend not to invest in the company so that there is a decrease in stock prices, which has an impact on the decline in the company's stock returns. The results of this study support the results of research by (Dwialesi, Juanita Bias, 2016; Ristyawan, 2019), concluding that price to book value has a positive effect on stock returns, while research conducted (Mahardika, I. Nyoman Febri, 2017) found that price to book value has a positive but not significant effect on stock returns.

Conclusions

Based on the analysis results, it can be concluded that the profitability ratio has a positive and significant effect on stock returns in manufacturing companies for the periods 2019, 2020, and 2021. This means that the resulting Return on Assets (ROA) will affect the amount of dividends to be distributed with the more significant the net profit ratio and total assets, the greater the dividends that will be distributed to shareholders; This result also finds that the liquidity ratio has a positive but not significant effect on stock returns in manufacturing companies for the period 2019, 2020 and 2021. This means that CR cannot be the basis for determining investors to buy and sell shares or investments. The study results found that the leverage ratio had a negative and significant effect on stock returns. The higher the DER level in a company, the lower the stock return received by investors, and vice versa. The study results found that the activity ratio had a positive and significant effect on stock returns in manufacturing companies for the periods 2019, 2020, and 2021. This means that the more influential the company is in using its assets to generate total net income, the value of stock returns will increase; The results of this study found that market ratios have a positive and significant effect on stock returns in manufacturing companies for the

period 2019, 2020 and 2021. This means that when PBV increases, it is followed by an increase in stock returns. For companies, the information obtained from this research should be used as consideration in making decisions related to profitability, liquidity ratios, leverage ratios, activity ratios, and market ratios that affect stock returns in order to be able to attract investors to invest in the company's shares.

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