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Analysis of the Effect of Sales Growth, Inventory Turnover and Growth Opportunities on Profitability and Stock Return

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Abstract

This study aims to determine the effect of sales growth, inventory turnover, and growth opportunities on profitability and stock returns in manufacturing companies in the fast-moving consumer goods sub-sector. For the independent variables, sales growth (X1), inventory turnover (X2), and growth opportunities (X3). The dependent variable is the return on assets (Y1), return on equity (Y2), and stock returns (Y3). The analytical method used is descriptive analysis with Structural Equation Model (SEM) using the financial statements of six fast-moving consumer goods sub-sector manufacturing companies from 2014 – 2018. This study finds that Sales Growth has a positive but not significant effect on Return on Assets. Return on Equity and Stock Return of the company. Inventory Turnover has a positive impact on Return on Assets and Return on Equity of the company, while Inventory Turnover does not affect Stock Return. And Growth Opportunities have a negative influence on Return on Assets, Return on Equity, and Stock Returns.

Keywords: Sales Growth, Inventory Turnover, Growth Opportunity, Return on Assets, Return on Equity, Stock Return

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1. Introduction

As one of the largest countries in the world, Indonesia has various essential roles among countries in Southeast Asia. Among these roles, the most prominent is the development of the manufacturing industry (Torugsa, 2012). Manufacturing companies in Indonesia contributed in the form of increasing the economy by 20.27%. The development of the manufacturing industry in a country can also be used to see the development of the national industry in that country. This development can be seen both from the aspect of product quality and industry performance. The opportunity to invest in the food and beverage sector is promising because the market is wide open with a large population. The economic growth and the large population of Indonesia are the pillars of this income growth. The company was founded to increase the company's value so that it can provide prosperity for the owners or shareholders (Jo, 2011; Lins, 2017; Servaes, 2013). A company's success is usually characterized by positive financial performance both from the achievement of profits, company growth, inventory turnover, and company growth opportunities. The company's success in earning profits shows a healthy financial performance; on the other hand, losses indicate a decrease in company performance. The ability of a company to generate profits from its business activities is called profitability (Chen, 2018; Mahoney et al., 2013). In

conducting the interpretation and analysis of a company's financial statements, it is necessary to have a certain measure, which is often used in the analysis of financial statements, namely the ratio. The ratio describes a relationship or balance between a certain amount or another amount. In this study, researchers used the Profitability Ratio (Raithatha & Haldar, 2021; Saeidi et al., 2021; Spatacean, 2014). Researchers chose this ratio to make it easier for investors to determine short-term and long-term investments. Investment is a commitment to place several funds in one or several instruments in the hope of getting profits in the future; this is stated (Akmese et al., 2016; Vătavu, 2015)

Discussing investment is the same as discussing risk, considering these two things cannot be separated. Investment in shares of public companies is classified as an investment that has a high risk. However, stocks can be considered one of the instruments that investors are most interested in because they offer a high return and the store's risk return (Billio et al., 2021; Pantea et al., 2014; Vătavu, 2015). The increasing consumer demand for food products has resulted in every company needing to have good management skills so that the company is run and can meet consumer needs to earn a profit. Each company has a strategy to increase its sales to attract consumer interest to increase product sales growth opportunities. To be successful and stay in business, profitability and growth are essential for a company to survive and remain attractive to investors and analysts. Profitability is, of course, crucial to a company's existence, but growth is critical to its long-term survival (Kaniyamattam et al., 2017; Newton et al., 2015). A company's profitability or net profit is the income after all costs associated with the manufacture, production, and sale of the product are deducted. Profit, for any company, is the primary goal, and with a company that initially has no investors or financing, profit may be the company's only capital. Without sufficient money or financial resources used to maintain and run the company, business failure is imminent. No business can survive for a long time without making a profit, although measuring a company's profitability, both now and in the future, is very important in evaluating a company.

Although the company can use financing from other parties to support itself financially for a while, in the end, it becomes a liability. Determining and focusing on the initial profitability, or start-up, of a company is very important. On the other hand, market growth and sales are the means to achieve that initial profitability. Identifying growth opportunities should be the next essential item on any company's list of goals once the company moves beyond the start-up phase (Akmese et al., 2016; Erdogan & Yamaltdinova, 2019). Growth for a business is expansion, making the company bigger, increasing its market, and ultimately making it more profitable. Measuring growth is possible by looking at related statistics, such as overall sales, staff, market share, and turnover. While the company's current profitability may be good, growth opportunities should always be explored because they offer greater overall profitability and attract analysts and potential, or existing investors, the company.

Knowing the current state of the company is critical to creating a successful growth strategy. If a company has too many weak areas, such as performance, sales, or marketability, premature growth attempts can ultimately destroy the business. The first step is to consolidate the current market, which means locking in the company's current state before trying to change it with growth. Theoretically, the ability to make money from stocks involves two critical decisions: buying at the right time and selling. To make a profit, you must execute both of these decisions correctly. The return on any investment is determined in the first place by the purchase price (Ozkan et al., 2017; Wahba & Elsayed, 2015). When it comes to investing, the decision when to buy a stock is sometimes easier than knowing when it's the right time to sell a stock. In general, there are three main reasons long-term investors sell: The buy was a mistake; The price has risen dramatically and The fundamentals no longer support the current price.

Fundamental analysis (FA) is a method for measuring a security's intrinsic value by examining related economic and financial factors. Fundamental analysis studies anything that can affect the value of securities, from macroeconomic factors such as economic conditions and industry conditions to microeconomic factors such as the effectiveness of company management. The end goal is to arrive at a

number that investors can compare the current security price to see if the security is undervalued or overvalued. This method of stock analysis is considered different from technical analysis, which predicts the direction of prices through analysis of historical market data such as price and volume. All stock analysis attempts to determine whether a security is correctly valued in the broader market. Fundamental analysis is usually done from a macro to micro perspective to identify securities that are not correctly priced. Analysts typically study, in order, the state of the economy as a whole and then the strength of a particular industry before concentrating on the performance of individual companies to arrive at a fair market value for the stock. Fundamental analysis uses public data to evaluate the value of stocks or other types of securities. For example, an investor could perform a fundamental analysis of a bond's value by looking at economic factors such as interest rates and the overall state of the economy and then study information about the bond's issuer, such as a potential change in its credit rating. For stocks, the fundamental analysis uses earnings, earnings, future growth, return on equity, profit margins, and other data to determine a company's base value and future growth potential.

2. Method

In writing this thesis, the research object is Sales Growth, Inventory Turnover, and Growth Opportunities on Profitability and Stock Return in Manufacturing Companies Sub-Sector Fast Moving Consumer Goods. To explain the relationship between the influence of Sales Growth, Inventory Turnover, and Growth Opportunities on Profitability and Stock Returns in Manufacturing Companies Sub-Sector Fast Moving Consumer Goods can be seen in the following framework of thought analysis:

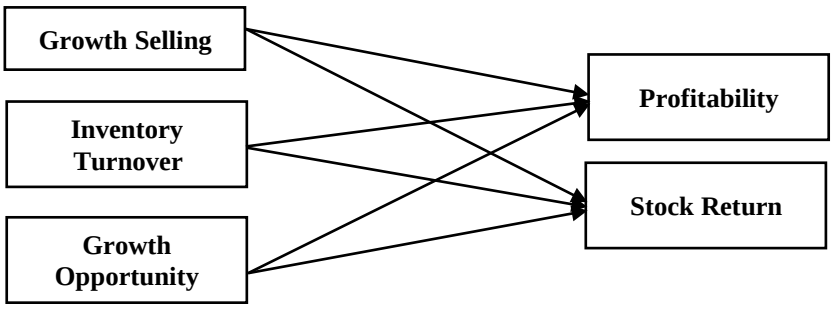

Figure 1. Conceptual Framework

Based on the literature review and the developed hypothesis above, an analytical framework can be presented to describe the relationship of the independent variables, sales growth, inventory turnover, and Growth Opportunities, to the dependent variable, namely Profitability and Stock Return. In this study, the population used is fast-moving consumer goods sub-sector manufacturing companies that have been and are still listed on the Indonesia Stock Exchange in 2014 - 2018. Six lists of companies that meet these criteria will be sampled in this study based on the criteria. The companies are:

1. PT Coca Cola Amatil Indonesia (CCAI)
2. PT Unilever Indonesia Tbk (UNVR)
3. PT Indofood Sukses Makmur Tbk (INDF)
4. PT Ultrajaya Milk Industry Company Tbk (ULTJ)
5. PT Indofood CBP Sukses Makmur Tbk (ICBP)
6. PT Danone Indonesia (DANO)

3. Results and Discussion

The results of data tabulation for the dependent and independent variables are presented in Table 1. The descriptive statistics of each variable are shown in Table 1 as follows:

Table 1. Statistical Result

Variables	Minimum	Maximum	Mean	Std. Deviation
Growth Sales	-0.028	0.196	0.053	0.054
Inventory Turnover	5.014	7.791	6.436	1.068
Growth Opportunity	-0.751	1.585	0.637	0.772
Return On Asset	0.033	0.467	0.136	0.124
Return on Equity	0.050	1.358	0.335	0.423
Stock Return	-0.749	0.782	0.126	0.296

\Based on the results of the descriptive statistical calculations above, for five years from 2014 – 2018, the data on the average value of the manufacturing company sales growth variable during the research period was 0.053 with a standard deviation of 0.054. The distance between the minimum and maximum values, where the minimum value is -0.028, and the maximum value is 0.196, is in the fast-moving consumer goods subsector manufacturing companies. Based on the results of the descriptive statistical calculations above, during the five years from 2014 – 2018, the data on the average value of the manufacturing company inventory turnover variable during the research period was 6,436 with a standard deviation of 1,068. The distance between the minimum and maximum values, where the minimum value is 5,014, and the maximum value is 7,791, in manufacturing companies in the fast-moving consumer goods subsector. Based on the results of the descriptive statistical calculations above, for five years from 2014 – 2018, the data on the average value of the manufacturing company growth opportunity variable during the research period was 0.637 with a standard deviation of 0.772. The distance between the minimum and maximum values, where the minimum value is -0.751 and the maximum value is 1.585 in the fast-moving consumer goods sub-sector manufacturing companies. Based on the results of the descriptive statistical calculations above, for five years from 2014 – 2018, the average value of the variable return on assets of manufacturing companies during the research period was 0.136 with a standard deviation of 0.124. The distance between the minimum and maximum values, where the minimum value is 0.050 and the maximum value is 1.358, for manufacturing companies in the fast-moving consumer goods sub-sector. Based on the results of the descriptive statistical calculations above, for five years from 2014 – 2018, the average value of the variable return on equity of manufacturing companies during the research period was 0.335 with a standard deviation of 0.423. The distance between the minimum and maximum values, where the minimum value is -0.749, and the maximum value is 0.782 in manufacturing companies in the fast-moving consumer goods sub-sector. Based on the results of the descriptive statistical calculations above, during the five years from 2014 – 2018, the data on the average value of the manufacturing company inventory turnover variable during the study period was 0.126 with a standard deviation of 0.296. The distance between the minimum and maximum values, where the minimum value is -0.749, and the maximum value is 0.782, in manufacturing companies in the fast-moving consumer goods sub-sector. The results of the Coefficient of Determination Test (R^2) are explained as in table 2.

Table 2. Coefficient of Determination Test (R^2)

	R Square	R Square Adjusted
Return on Asset	0.302	0.221
Return on Equity	0.281	0.198
Stock Return	0.153	0.055

According to the table above, the coefficient of determination of Return on Assets is 0.302, meaning that the contribution of the variable sales growth, inventory turnover, and growth opportunities to the Return on Assets variable is moderate. The coefficient of Return on Equity determination is 0.281, meaning that the contribution of the variable sales growth, inventory turnover, and growth opportunities to the Return on Equity variable is moderate. The coefficient of determination of Stock Return is 0.153, meaning that the contribution of the variable sales growth, inventory turnover, and growth opportunities to the Stock Return variable is weak. The results of the PLS data processing are described as shown in Figure 1.

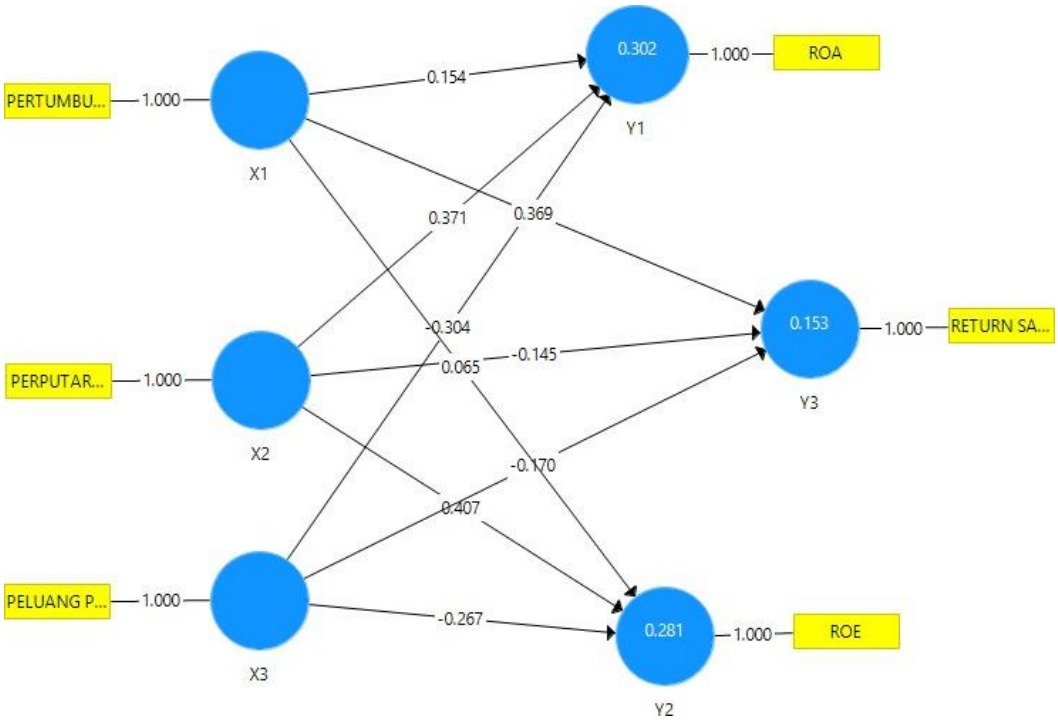

Figure 1. Structural Model Output with PLS Algorithm

The figure 1 explains that the round shape is reflected as a variable, and the box shape is remembered as an indicator. In this study, each variable is the same as the indicator. Then also explained between direct and indirect relationships. The direct connection is sales growth with ROA, sales growth with ROE, sales growth with Stock Return, inventory turnover with ROA, inventory turnover with ROE, inventory turnover with Stock Return, growth opportunity with ROA, growth opportunity with ROE, and growth opportunity with Return Share. The results of hypothesis testing are explained as in table 3.

Table 3. Hypothesis Testing

	Original Sample	Sample Mean	Standard Deviation	T-Statistic	P-Value
GS → ROA	0.154	0.179	0.182	0.848	0.398
GS → ROE	0.065	0.082	0.160	0.410	0.683
GS → RT	0.369	0.351	0.157	2.350	0.020
ITR → ROA	0.371	0.363	0.126	2.934	0.004
ITR → ROE	0.407	0.396	0.120	3.389	0.001
ITR → RT	-0.145	-0.144	0.202	0.718	0.474
GO → ROA	-0.304	-0.287	0.129	2.349	0.020
GO → ROE	-0.267	-0.259	0.132	2.016	0.046
GO → RT	-0.170	-0.158	0.168	1.015	0.312

The test results show that the Sales Growth variable has a T-Statistic value of 0.848 and a p-value of 0.398, while the critical value (t-table) is 1.6527 and a p-value of more than 0.05 or 5%. And the result of the original sample is 0.154. The test results show that the T-Statistic value < critical value (t-table) and p-value > 0.05 and the initial selection is positive. This shows that the Sales Growth variable has a positive but not significant effect on the company's Return on Assets; H1 is rejected. This means that the higher the company's sales growth rate does not affect the company's Return on Assets.

The test results show that the Sales Growth variable has a T-Statistic value of 0.410 and a p-value of 0.683, while the critical value (t-table) is 1.6527 and a p-value of more than 0.05 or 5%. And the result of the original sample is 0.065. The test results show that the T-Statistic value < critical value (t-table) and p-value > 0.05 and the initial selection is positive. This shows that the Sales Growth variable has a positive but not significant effect on the company's Return on Equity; in other words, H2 is rejected. This means that the higher the company's sales growth rate does not affect the company's Return on Equity.

The test results show that the Sales Growth variable has a T-Statistic value of 2.350 and a p-value of 0.020, while the critical value (t-table) is 1.6527 and a p-value of more than 0.05 or 5%. And the result of the original sample is 0.369. The test results show that the T-Statistics value > critical value (t-table) and p-value < 0.05, and the original selection is positive. This shows that the Sales Growth variable has a positive and significant effect on the company's stock return; in other words, H3 is accepted. This means that the higher the company's sales growth rate affects the company's stock return.

The test results show that the Inventory Turnover variable has a T-Statistic value of 2.934 and a p-value of 0.004, while the critical value (t-table) is 1.6527 and a p-value of less than 0.05 or 5%. And the result of the original sample is 0.371. The test results show that the T-Statistics value > critical value (t-table) and p-value < 0.05, and the original selection is positive. This shows that the Inventory Turnover variable has a positive and significant effect on the company's Return on Assets; in other words, H4 is accepted. This means that the higher the company's inventory turnover rate affects the company's Return on Assets.

The test results show the Inventory Turnover variable has a T-Statistic value of 3.389 and a p-value of 0.001. The critical value (t-table) is 1.6527, and the p-value is less than 0.05 or 5%. And the result of the original sample is 0.407. The test results show that the T-Statistics value > critical value (t-table) and p-value < 0.05, and the original selection is positive. This shows that the Inventory Turnover variable is positive and significant to the company's Return on Equity. In other words, H5 is accepted. This means that the higher the company's inventory turnover rate affects the company's Return on Equity.

The test results show the Inventory Turnover variable has a T-Statistic value of 0.718 and a p-value of 0.474. The critical value (t-table) is 1.6527, and the p-value is more than 0.05 or 5%. And the result of the original sample is -0.145. The test results show that the T-Statistic value < critical value (t-table) and p-value > 0.05, and the initial selection is negative. This indicates that the Inventory Turnover variable is harmful and not significant to the company's stock return; in other words, H6 is rejected. This shows that the inventory turnover variable is not meaningful to the company's stock return. This means that the higher the company's inventory turnover rate does not affect the company's stock return.

The test results show that the Growth Opportunity variable has a T-Statistic value of 2.349 and a p-value of 0.020. The critical value (t-table) is 1.6527, and the p-value is more than 0.05 or 5%. And the result of the original sample is -0.522. The test results show that the T-Statistic value> critical value (t-table) and p-value <0.05, and the actual selection is adverse. This indicates that the Growth Opportunity variable is negative and has a significant effect on the company's Return on Assets; in other words, H7 is rejected. This means that the higher the level of company sales opportunities does not affect the company's Return on Assets.

The test results show that the Growth Opportunity variable has a T-Statistic value of 2,016 and a p-value of 0.046. The critical value (t-table) is 1.6527, and the p-value is less than 0.05 or 5%. And the result

of the original sample is -0.267. The test results show that the T-Statistic value> critical value (t-table) and p-value <0.05, and the actual selection is adverse. This indicates that the Growth Opportunity variable is negative and has a significant effect on the company's Return on Equity. In other words, H8 is rejected. This means that the higher the level of company sales opportunities does not affect the company's Return on Equity.

The test results show that the Growth Opportunity variable has a T-Statistic value of 1.015 and a p-value of 0.312. The critical value (t-table) is 1.6527, and the p-value is more than 0.05 or 5%. And the result of the original sample is -0.170. The test results show that the T-Statistic value < critical value (t-table) and p-value > 0.05, and the original sample is negative. This indicates that the Growth Opportunity variable does not affect the company's stock return because other variables affect the stock return; in other words, H9 is rejected. This means that the higher the level of the company's sales opportunity does not affect the company's stock return.

4. Conclusions

Based on the research results on the Effect of Institutional Ownership, Operating Leverage, Liquidity on Firm Value with Company Performance, the authors can draw the following conclusions: Sales growth has a positive but not significant effect on the company's Return on Assets. A high level of sales growth indicates the company's ability to generate increased revenue from the sale of the company's products; on the contrary, low growth suggests the company's ability to create low income from the previous period. The financial reports of 6 manufacturing companies show that the company during the five years experienced an increase and a decrease in sales growth. Sales Growth has a positive but not significant effect on Return on Equity. This means that the higher the company's sales growth rate does not affect the company's Return on Equity. Companies with high growth rates will affect their ability to maintain profits. However, in reality, a high growth rate does not always indicate a company's high profit (ROE). An increase in sales growth can cause this. Companies tend to use debt rather than their own capital to finance their operations. Sales Growth has a positive and significant impact on Stock Return. This means that the higher the company's sales growth rate affects the company's stock return. Stock prices can be affected by sales growth. If the company is constantly experiencing change, then this is a sign of good company development. This will have a positive response from investors to want to invest in the company.

The higher the demand for a company's stock, the higher the company's stock price. Inventory Turnover has a positive and significant effect on Return on Assets. Inventory Turnover is used for the relationship between sales volume and the amount of inventory held during the current period. A high inventory turnover rate indicates a high level of sales. Inventory Turnover has a positive and significant effect on Return on Equity. Growth opportunity is a change (decrease or increase) in total assets owned by the company. The measure used is to calculate the proportion of increase or decrease in assets. Growth opportunity affects profitability through assets owned so that it affects the productivity and efficiency of the company, which in turn affects profitability. The faster the company's growth, the higher the company's ability to generate profits. This means that the assessment of the profitability ratio is also high.

Inventory Turnover has a negative and insignificant effect on Stock Return. This shows that the inventory turnover variable is not significant to the company's stock return. This means that the higher the company's inventory turnover rate does not affect the company's stock return. The amount of the company's inventory cannot affect stock returns due to weak and not optimal inventory management. Companies that perform well will process their inventories to generate profits, but this will not directly create returns for the company. Growth Opportunities have a negative and significant effect on Return on Assets. Return on Assets is not substantial for growth opportunities; a negative result means a movement in the opposite direction between variables where a decrease will follow an increase in Return on Assets in growth opportunities and vice versa. Growth Opportunities have a negative and significant effect on Return on Equity. An increase in inventory is an indicator of a decline in profit. In addition, when the company faces

slow sales while the list continues to grow, it will increase storage costs, the risk of damage is high, and there is also a decrease in prices so that sales revenue and profits are reduced. Growth Opportunities have a negative and insignificant effect on Stock Return. Sales growth opportunities do not affect stock prices because sales growth opportunities fluctuate every year. Opportunity sales growth is the implementation of a successful company. Still, frequent sales decline will affect investor interest in investing so that only part of investors who glanced in terms of growth opportunities selling.

Another hand, the research model has been developed and tested using the Structural Equational Model (SEM) proved to strengthen theoretical concepts in Financial Management. The idea can be a reference for other researchers who may be used. The results of this study are expected to realize research in the field of financial management that is interconnected. This research cannot get complete information about the financial statements of each manufacturing company, so the researcher only uses data from 6 companies. The research time is minimal, so the complete information needed in this study has not been obtained. This research is expected to be helpful for the development of science in connection with the findings of research results, both in this research and in the future, and the development of science, especially Financial Management. Manufacturing companies in the fast-moving consumer goods sub-sector are expected to pay more attention to sales growth, inventory turnover, and company growth opportunities because these three variables influence company profitability. In practice, the stock return variable does not affect sales growth, inventory turnover, and growth opportunities because it cannot be known with certainty how many stock returns in 1 year. Determining the wrong return assumption in financial planning can have a fatal impact. If it is too high, investors are like being given “heavenly winds,” with minimal capital, they can achieve maximum results. Financial goals can be dispersed if the targeted numbers are not fulfilled.

Meanwhile, if it is too low, the investment needed to achieve financial goals becomes too large. Investors must accept that their goals are unrealistic because the amount of investment is beyond their capabilities. The problem is, in investing, let alone investing in stocks, you can't promise a definite return. Throughout the Indonesian capital market history, stock returns in general as reflected by the JCI (Joint Stock Price Index) can range from losses of tens of percent to gains of tens of percent per year. JCI returns are also influenced by many factors, ranging from macroeconomic data such as inflation, interest rates, foreign exchange reserves, exports and imports, then other data on company performance, commodity prices, political and economic conditions at home and abroad, to the flow of foreign funds. Most of these indicators also use assumptions that are vulnerable to change according to requirements and situations.

For this reason, the existence of a reference or at least information regarding the range of potential losses/profits that may be borne will make investors more prepared to invest in stocks and face the risk of fluctuations in the stock exchange. Further researchers are expected to be able to add or expand the independent variables in the subsequent research. Different researchers should also take a sample as a model variation by comparing the company value, which is equivalent to the sample of profitability and stock returns of other sector companies. Further researchers can add variables that are expected to have a positive and significant effect on Return on Assets, equity, and Stock Returns.

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