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The Effect of Financial Performance and Company Size on Stock Price with Dividend Policy as A Moderating Variable

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ABSTRACT

Research has been done with the title Effects of Financial Performance and Company Size on Stock Prices with Dividend Policy as a Moderating Variable (Empirical Study of Basic Industry and Chemical Companies Listed on the Indonesia Stock Exchange for the 2017-2021 period). The researcher took a sample of 20 companies on the Indonesia Stock Exchange. The purpose of this research is to prove the influence of Return on Assets, Current Ratio, Debt to Equity Ratio and Company Size both partially and simultaneously on Stock Prices moderated by Dividend Policy. Data analysis using Panel Data Regression and Moderating Regression Analysis (MRA). The results of the study found that Return on Assets had a significant positive effect on. Current Ratio has a significant negative effect on stock prices. Debt to Equity Ratio has a significant negative effect on stock prices. Company size has a significant positive effect on stock prices. Return On Assets, Current Ratio, Debt to Equity Ratio and Company Size together have a significant positive effect on stock prices. Dividend Policy is able to moderate the effect of Return on Assets on Stock Prices. Dividend Policy is able to moderate the effect of the Current Ratio on Stock Prices. Dividend Policy is able to moderate the effect of the Debt-to-Equity Ratio on Share Prices. Dividend Policy is able to moderate the effect of Company Size on Share Prices in Chemical and Basic Industrial Companies listed on the Indonesia Stock Exchange during the 2017-2021 period.

Keywords: Return on Assets; Current Ratio; Debt to Equity Ratio; Company Size; Stock Price; Dividend Policy

INTRODUCTION

In Indonesia, the development of basic industrial and chemical companies is quite rapid, this can be seen from the development of basic industrial and chemical companies that are listed on the Indonesia Stock Exchange (IDX) or become go public companies which are increasing from year to year. Basic Industry and Chemicals are sectors that are part of the IDX that contribute actively to the capital market, because it is a sector that has quite a lot of contributions to people's lives, of course it will affect changes in stock prices on the capital market. So that it gets the attention of investors who want to invest their capital. The presence of shareholders or creditors is a source of company capital (Inayah & Kaniarti, 2021).

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The capital market provides an opportunity for companies to attract investors to invest in their companies. Companies wishing to obtain funding sources in the capital market must decide to go public or be listed on the stock exchange. For companies that have gone public, they can trade their shares in the capital market. By trading its shares in the capital market, the company can obtain funds for the continuity of the company's operations and the opportunity to develop the company. In companies that go public, the value of a company is reflected in the price of its shares traded on the stock exchange. Every company that has Go-Public will publish its company's financial statements. Financial reports are very important as a source of information for company stakeholders.

Investors who invest in the capital market have a motive to get the maximum profit, security and growth of the invested funds in the future, namely by obtaining dividends or Capital Gains. It is not easy for companies to attract investors to invest, each investor has criteria for investing. Companies are required to look at the various opportunities that exist and look for strategies on how to attract investors to invest in a company. One of the things that attracts investors to a company is the company's stock price.

The stock price is a very important factor for investors in investing or investing and is an indicator of the strength of the company as a whole. If the stock price of a company experiences continuous increases, then investors can judge that the company is being managed as best as possible. Vice versa, if the stock price of a company has decreased, then the company is not managed optimally. Fluctuating stock prices are formed from the meeting between the supply and demand for purchases. According to (Simatupang 2010, 21) stock price is the value traded on the stock exchange. The share price used is the closing price, which means the market price that occurs due to the end of a period (Inayah & Kaniarti, 2021). The following presents data on the share prices of basic and chemical industrial companies listed on the Indonesia Stock Exchange for the period 2017 to 2021, as follows:

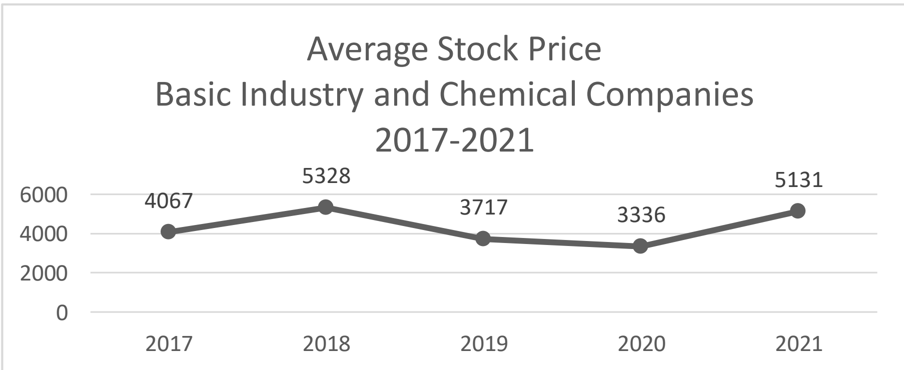

Figure 1. Average Stock Price

Several factors affect stock prices including financial performance. Financial performance is considered to affect stock prices. Financial performance is an analysis carried out to see how far the company has implemented and used financial implementation rules, to an overview of the company's financial condition which is analyzed with financial analysis tools, so that it can be known about the good and bad financial condition of a company that is can reflect work performance in a certain period (Agustiningsih & Sitohang, 2017). In analyzing the company's financial performance, there are financial ratios consisting of four groups, namely: profitability, liquidity, leverage and activity. However, in this study, researchers only used 3 ratios, namely profitability using return on assets, liquidity ratios using the current ratio and solvency ratios using the debt-to-equity ratio which affect stock prices.

In addition to the profitability ratio, the liquidity ratio is also something that investors need to pay attention to. Liquidity is also one of the factors that drive changes in a company's stock price. According to (Riyanto 2011, 25) this ratio reveals matters related to the problem of the ability of a company to be able to fulfill financial obligations (debt) that must be resolved as soon as possible. In this study, researchers used the Current Ratio (CR), a ratio that indicates a company's ability to pay current debt using current assets. Of course, the greater the value, the better.

Another ratio that investors need to pay attention to before investing is the solvency ratio. The solvency or leverage ratio is a ratio to assess a company's ability to pay off all of its short-term and long-term obligations with guaranteed assets or assets owned by the company until the company closes or is liquidated (Kasmir, 2012). The level of solvency performance is measured by the debt-to-equity ratio which is the ratio between debt to equity of a company. This ratio is used to see the extent to which the debt owned can be borne from the equity owned by the company. Debt to equity ratio is part of the financial information that can describe the condition of the company which will certainly affect the movement of a stock price. For investors, the greater the value of this ratio, the more unprofitable it will be because the greater the risk that will be borne by the failure that may occur to the company.

Company size is one variable that is considered capable of influencing stock prices. An established company will have easy access to the capital market to raise funds at lower costs, while new and small companies will experience many difficulties in having access to the capital market, Marietta and Sampurno (2013). Company size is a scale on which the size of the company can be classified according to various ways including total assets, log size, stock market value and others. The greater the total assets can illustrate that the company has reached its maturity stage. Companies that have reached the maturity stage have a positive cash flow and are expected to provide a relatively long-term profit aspect. Company size is reflected in the size of the total assets and capital used by the company (Rei and Merta, 2016).

Dividend policy is a very important aspect and is most considered by investors rather than looking at the company's stock price itself. Dividend policy is a management decision in a company whether profits earned in one year will be distributed to investors or become retained earnings for financing and company operational activities in the future. To make an optimal dividend policy, of course, financial managers must look at the amount of profit and debt in the company. The financial manager must be able to determine the dividend policy that will be taken to balance the current dividend the company has and the dividend growth rate in the future so that the value of a company can be continuously increased.

METHOD

This research was conducted at Basic Industry and Chemical companies listed on the Indonesia Stock Exchange for the 2017-2021 period. Sampling in this study was carried out using purposive sampling method, The number of research samples is 20 companies. To explain the strength of the influence of several independent variables and explanatory variables (independent/explanatory variables) on one dependent variable, the data analysis technique in this study used multiple regression models.

This analysis uses panel data which is a combination of time series data and cross section data. There are two data panels, namely the balance panel and the unbalance panel. Panel balance data is a situation where cross-sectional units have the same number of time series observations. Meanwhile, unbalanced panel data is a condition where the cross-sectional unit has an unequal number of time series observations.

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This study uses panel balance panel data. The stages or steps are to carry out a quantitative analysis consisting of: Panel data regression model selection; Assumption Test; Estimate regression model using panel data; Hypothesis testing (T-Test and F-Test).

The analytical tool used in this study is Eviews 10. Eviews 10 is a computer software program that is used to manage data in the form of statistical and econometric data quickly and precisely, and produce the desired output by trusted decision makers. Statistics can be interpreted as an activity that aims to collect data, summarize or present data then analyze the data using certain methods, and interpret the results of the analysis. The moderating variable is calculated using Moderate Regression Analysis (MRA).

RESULT AND DISCUSSION

Result

Table 1
Research Results "The Effect of Financial Performance and Company Size on Stock Price with Dividend Policy as A Moderating Variable"

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.188387	1.843176	0.827238	0.2207
ROA?	6.425612	4.081844	7.276761	0.0000
CR?	-5.277475	1.025497	-5.146260	0.0000
DER?	-7.989491	3.020661	-5.264495	0.0000
SZ?	8.526638	1.477402	6.577137	0.0000
ROA*DIV	3.384772	1.976805	3.482123	0.0008
CR*DIV	-6.945083	3.315754	-6.246417	0.0000
DER*DIV	-3.557606	1.835163	-2.938577	0.0039
SZ*DIV	3.441477	2.722364	6.558943	0.0000

Based on the results of the study, we can see that the partial return on assets has a significant positive effect on stock prices with a regression coefficient of 6.425612 and a probability of 0.0000. The current ratio partially has a significant negative effect on stock prices with a regression coefficient value of -5.277475 and a probability of 0.0000. The debt-to-equity ratio partially has a significant negative effect on stock prices with a regression coefficient value of -7.989491 and the probability is 0.0000. Firm size partially has a significant positive effect on stock prices with a regression coefficient of 8.526638 and a probability of 0.0000. Then, based on the research results, we can see that dividend policy plays a role in moderating the effect of return on assets on stock prices with a regression coefficient of 3.384772 and a probability of 0.0008. Furthermore, dividend policy also plays a role in moderating the effect of the current ratio on stock prices with a regression coefficient of -6.945083 with a probability of 0.0000. Then the dividend policy also plays a role in moderating the influence of the debt-to-equity ratio with a regression coefficient of -3.557606 and a probability of 0.0039. Furthermore, dividend policy also moderates the effect of firm size on stock prices with a regression coefficient of 3.44147 and a probability of 0.0000. The results of the F test show the F statistic is 42.17174 with a probability of 0.0000. This shows that simultaneously all the independent variables have a significant influence on stock prices which are moderated by dividend policy. then the test results of the coefficient of determination show an R-square value of 0.787569 which means that the contribution of all independent research variables is 78.7569% to stock prices.

Discussion

Return On Assets is a profitability ratio that measures a company's ability to generate profits compared to the total assets owned by the company. The results showed that there was a significant positive effect between Return on Assets on stock prices. This shows that Return On Assets is able to provide a positive signal to investors in the stock exchange, so that this is responded positively by investors in the stock exchange which causes an increase in stock prices. This is in accordance with previous research by Alifatussalimah & Sujud (2020).

Current Ratio is a liquidity ratio that compares current assets with current debt of the company. If current assets are too high, it is said that the company has too much idle money, and it can also mean that the company has the ability to pay short-term obligations or pay debts that are due in less than 1 year. The results showed that there was a significant negative effect of the current ratio on stock prices. It can be said that an increase in the current ratio was responded negatively by investors on the stock market. Or it can also be said that an increase in the current ratio gives a negative signal to investors in the stock market. This is in line with previous research conducted by Gunawan et al (2020).

Debt to Equity Ratio is a company's solvency ratio, which is to measure a company's ability to pay long-term obligations or it is also said to be a leverage ratio, namely the ratio of debt to equity owned by the company. If this ratio is too high, it will pose a risk to the company, namely the risk of default on debt. The results showed that the debt-to-Equity Ratio has a significant negative effect on stock prices. This shows that an increase in the debt-to-equity ratio is responded negatively by investors in the stock market which is marked by a decrease in stock prices. This is in line with research by Mussalamah & Isa, Muzakar (2015).

Company size is a measure of the total assets owned by the company, where if this number continues to increase every year, the company is said to grow healthily or have good financial performance. Conversely, if the number of company assets decreases every year, it can be said that the company is in unfavorable condition. The results showed that company size had a significant positive effect on stock prices. This shows that the number of company assets continues to increase and investors respond positively to the stock market, causing stock prices to increase. The results of the study are in line with research by junior et al (2021).

The results of these empirical findings show that Return on Assets, Current Ratio, Debt to Equity Ratio and Firm Size are an integral and inseparable model in making investment decisions for investors, which is marked by an increase in stock prices. This means that investors respond positively to Return on Assets, Current Ratio, Debt to Equity Ratio and Company Size. This can be interpreted that the company has better prospects, giving rise to good expectations for investors. This spurred investors to increase their investment in Basic Industry and Chemical Companies, by buying many shares of Basic Industry and Chemical Companies (overbought) resulting in an increase in the Share Price.

Return On Assets is a profitability ratio that measures a company's ability to generate profits compared to the total assets owned by the company. The partial test results show that Return On Assets has a significant positive effect on stock prices, this means that investors respond positively to the stock market. The response from investors was also strengthened by the existence of a dividend policy. So that the research findings show that Dividend Policy is able to moderate the relationship between Return on Assets and Stock Prices. The findings of this study mean that both Return on Assets and Dividend Policy, in this case, are taken into consideration by investors in making investment decisions because they have an influence on stock prices.

Dividend Policy strengthens investor confidence in making investment decisions which is marked by an increase in share prices. The results of the previous partial test showed that the Current Ratio or institutional ownership had a significant negative effect on the stock price, but after being moderated by the Dividend Policy the results were negative. It can be said that if there is an increase in the Current Ratio, the stock price will decrease, and vice versa if there is a decrease in the Current Ratio, the stock price will increase.

Dividend policy strengthens investor confidence in making investment decisions which is marked by an increase in share prices. The results of the partial test of Debt-to-Equity Ratio to Stock Price show negative results. However, after being moderated by the Dividend Policy, the results of the moderation were negative. It is said that the Dividend Policy is able to strengthen investor confidence in making investment decisions for investors in the Stock Exchange.

The results of testing the seventh hypothesis (H5) show that the dividend policy negatively moderates company size on share prices in basic industrial and chemical companies listed on the Indonesia Stock Exchange for the 2017-2021 period. This means that the Dividend Policy strengthens investor confidence in making investment decisions which is marked by an increase in share prices. The results of the partial test of Company Size on Stock Price show negative results. However, after being moderated by the Dividend Policy, the results of the moderation were also negative. It is said that the Dividend Policy is able to strengthen investor confidence in making investment decisions for investors in the Stock Exchange.

CONCLUSION

After referring to the formulation of the problem, research objectives, hypotheses and research results, the researcher draws the following conclusions: Return on Assets and Company size has a significant positive effect on share prices in Chemical and Basic Industry Companies listed on the Indonesia Stock Exchange during the 2017-2021 period. Current Ratio and Debt to Equity Ratio has a significant negative effect on share prices in Chemical and Basic Industry Companies listed on the Indonesia Stock Exchange during the 2017-2021 period. Return On Assets, Current Ratio, Debt to Equity Ratio and Company Size together have a significant positive effect on the stock prices of Chemical and Basic Industry Companies listed on the Indonesia Stock Exchange during the 2017-2021 period. Dividend Policy is able to moderate the effect of Return on Assets, Currebt Ratio, Debt to Equity Ratio, and Company Size on Share Prices in Chemical and Basic Industry Companies listed on the Indonesia Stock Exchange during the 2017-2021 period.

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