



## The Effect of Return on Assets, Return on Equity, Debt to Equity Ratio, and Current Ratio on Stock Returns in Companies Listed in the LQ 45 Index on the Indonesia Stock Exchange 2017 - 2019

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### ABSTRACT

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The purpose of this study is to observe the effect of ROA, ROE, DER, and CR on stock returns in companies listed in the LQ 45 index on the IDX. Observations used the T test, F test, and used quantitative descriptive. Many populations were used for research, namely 45 companies in the 2017-2018 period and purposive sampling was carried out on this population to obtain samples. There are 31 companies obtained as samples. The data analysis technique used for this study is the multiple linear regression analysis technique. In this study, it shows partially only DER which has a positive and significant effect on stock returns and simultaneously the four variables used have a positive and significant effect on stock returns. In the determination coefficient test, it can be seen that the adjust r square (R2) number is 0,

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## 1. Introduction

The capital market is needed to carry out investment activities carried out by investors (investors) that can improve people's welfare. To carry out investment, the parameters that can be used by investors can be seen through the company's equity and its return to the company. On the IDX there are 34 listed stock price indexes, one of which is the LQ 45 index, while the others are IHSG, IDX 30, and others. Companies that are included in the LQ45 Index have gone through the maximum liquidity selection process, however, they do not rule out fluctuations that result in uncertainty about the returns received by investors.

In making their investments, investors expect the desired rate of return (stock return). To get the desired return on investment, investors must consider the financial aspects of a company and the risks that occur. The risks that arise are for example debt, if you invest with a high risk but get a low return, then no investor will be interested in these shares. Investors should consider forming a portfolio in investing their capital. Because in the form of a portfolio the level of risk can be reduced. The variables that affect stock returns in this research are Return on Assets, Return on Equity, Debt to Equity Ratio, and Current Ratio.

In considering the importance of financial ratios, it is necessary to examine the profitability ratio, namely the On Asset Ratio. ROA calculates how much the company's expertise to increase profits by the total assets of the company. The negative value is more due to a decrease in company profits. This shows that the company's ability to use its assets is not good enough to generate profits which results in a decrease in the willingness of investors to own shares of the company and also affects the decline in share prices which results in a decline in return. Increasing the amount of ROA value will be able to have a positive effect on increasing stock returns.

*Financial ratios* Another profitability that affects stock returns is Return On Equity. ROE Enables the company's performance in obtaining profit by dividing the value of net income after tax and shareholder equity. High ROE allows companies to be able to get a profit from their own capital. An increase in ROE can trigger the selling price value that affects stock prices, this is related to an increase in stock returns. Problems that will often occur in ROE if the company is unable to maintain its cash flow which can cause a decrease in net income after tax. A decrease in net income after tax can lead to a decrease in stock returns and reduce investor confidence in investing. The greater the ROE value can have a positive effect on increasing stock returns.



Apart from ROA and ROE, Return is also influenced by the Debt to Equity Ratio. Investors use DER to calculate a company's ability to cover its long-term liabilities. The problem that arises in DER is when the manager does the wrong calculation on the accumulation of debt that is too large, especially long-term debt, while the allocation of debt is not used properly for company operations which results in decreased stock returns. The better the company's ability to use assets to pay off long-term debt, the higher the return of shares desired by investors. The high DER value can have a negative effect on increasing stock returns.

*Current Ratio* can also be a factor of stock returns where CR can display the company's expertise in using current assets to pay all current liabilities. Investors usually in examining the company's financial statements focus on assets and the ability to pay off short-term liabilities at the time of investing. The phenomenon that usually occurs in CR lies in short-term debt that is usually paid in less than one year. The company's inability to pay short-term debt is usually caused by low sales rates. Low sales can affect and trigger companies to pay debt and result in low returns and will reduce the level of investor confidence. The higher CR value can have a positive effect on increasing stock returns.

Based on the data obtained, there was an anomaly in the data that contradicts the existing theory, namely what happened in the PT AKRA company, total assets increased in 2018 - 2019 amounting to IDR 1,468,195,574 but this was not accompanied by an increase in share prices. The share price decreased by Rp. 340, the decline in stock price caused a decrease in stock returns, because stock returns were influenced by stock prices. Therefore, it contradicts the theory that if the assets increase, the stock returns will increase.

At PT WIKA, the net profit after tax has increased from 2017 - 2018 amounting to Rp. 717,184,375 but this is not followed by an increase in share prices in the year. Its share price fell by 530. The fall in stock prices will result in a decline in stock returns and this can be said to be contrary to the existing theory. If net income increases, the return will increase and it explains that ROE can be negative for stock returns.

At PT UNTR, the amount of debt has increased from 2017 - 2018 amounting to IDR 24,506,170 and was not accompanied by an increase in share prices. The stock price fell by Rp. 150. The fall in stock price will result in a decrease in stock returns and could explain that DER has a negative impact on stock returns.

At PT BRPT, the amount of current assets in 2017 decreased in 2018 by Rp. 2,457,763 and was followed by an increase in the share price of Rp. 1,550. So that there is a problem that occurs between a decrease in assets that is not followed by an increase in stock prices so that the stock return received by investors increases, and explains the effect of CR on stock returns, which is a positive effect.

## **2. Literature review**

### **2.1 The theory of the effect of Return On Assets on Stock Returns**

ROA sees that the rate of return on investment that has been carried out is able or not to provide the desired return, and this investment is an asset that is invested in a company (Fahmi, 2012: 98). ROA looks at the competence of the company in order to benefit from all assets used (Wiagustini, 2010: 81). Therefore, an increase in ROA can affect an increase in stock returns.

### **2.2 The theory of the effect of Return On Equity Return on Shares**

Based on Brigham & Houston (2011: 133) ROE is very important where net income after tax is divided by total shareholder equity in order to return equity. ROE calculation can be done using the indicator of net income after tax divided by shareholder equity (Tandelilin, 2011: 133). For this reason, high ROE can affect the increase in stock returns.

### **2.3 The theory of the effect of Debt to Equity Ratio on Stock Return**

DER functions to assess liabilities and equity by comparing all total liabilities with total equity. It can be seen how much DER is (Kamsir, 2015: 157). When a company is in liquidation, DER can be used by the company as a ratio in determining its ability to take on its responsibilities (Darsono and Ashari, 2010). Therefore, a high DER will have a bad impact on stock returns.

### **2.4 The theory of the influence of Current Ratio on Stock Return**

The ability to pay or pay off current liabilities that will expire can be measured by the current ratio. The short-term liabilities themselves can be paid using current assets owned by the company. The level of security of a company can be measured by this ratio as well (Kamsir, 2014: 134).

The measurement of short-term liabilities is the definition of the current ratio, which means that the company is able or not to pay off its liabilities when due (Fahmi, 2012)..

The higher the CR, it can affect the increase in stock returns.

### 2.5 Conceptual Framework

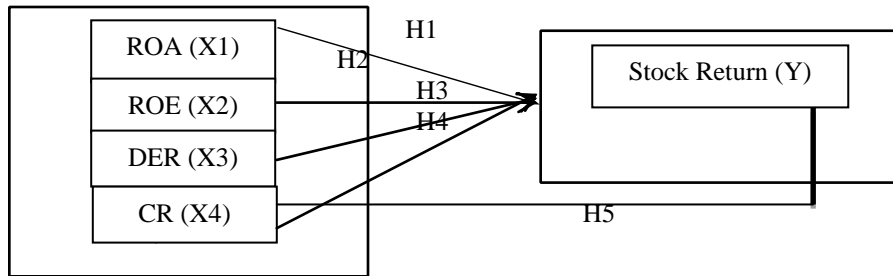


Fig 1 conceptual framework

### 2.6 Research Hypothesis

- H1: Return on Asset has a partial effect on Stock Returns at LQ 45 Index Companies listed on the IDX for the period 2017 - 2019.
- H2 : *Return on Equity* Partially affect the Stock Return of the LQ 45 Index Companies listed on the IDX for the 2017-2019 period
- H3 : *Debt to Equity Ratio* Partially affect the Stock Return of the LQ 45 Index Companies listed on the IDX for the 2017-2019 period
- H4 : *Current Ratio* Partially affect the Stock Return of the LQ 45 Index Companies listed on the IDX for the 2017-2019 period
- H5 : *Return on Equity, Debt to Equity Ratio* and *Current Ratio* has a simultaneous effect on Stock Returns in LQ 45 Index companies listed on the IDX for the 2017-2019 period.

### 3. Research methods

This research uses a quantitative method with a descriptive nature.

#### 3.1 Research Place

Researchers carried out research on LQ 45 companies listed on the IDX in 2017 - 2019 at [www.idx.co.id](http://www.idx.co.id)

#### 3.2 Population and Sample

LQ 45 companies listed on the IDX for the period 2017 - 2019 are the population for this study.

This study uses purposive sampling technique to determine the sample. In determining the sample, certain considerations can be made which is the meaning of purposive sampling (Sugiono 2016: 85). The sample selection criteria are as follows:

**Table 1**  
Sample Selection Table

No.	Kriteria	Total
1	LQ 45 companies listed on the Indonesia Stock Exchange for the period 2017 - 2019	45
2	LQ 45 companies that are not running on the Stock Exchange in a row from the 2017-2019 period	(12)
3	LQ 45 companies that suffered losses in the 2017 - 2019 period	(2)
<b>Number of Company Samples</b>		<b>(31)</b>
<b>Total sample (31 x 3)</b>		<b>93</b>

#### 3.3 Data collection technique

Data were collected using documentation techniques. The collection process is carried out by copying (recording), collecting and reviewing company evidence relating to the problem being studied whose source is the financial statement and historical share prices in the company. [www.idx.co.id](http://www.idx.co.id) since 2017 - 2019.

#### 3.4 Identification and Operational Definition of Research Variables

The assessment uses 4 independent variables and 1 dependent variable.



**Table 2**  
Operational Definition and Variable Measurement

Variable	Concept	Indicator	Scale
Return On Asset (X1)	Companies that own assets to the extent that they can make a profit. (Eduardus Tandelilin, 2013, p. 72)	$ROA = \frac{Laba Bersih Setelah Pajak}{Total Aktiva}$	Ratio
Return On Equity (X2)	This ratio can determine the ability to use your own capital and can measure net income after tax with your own capital. (Cashmere 2008: 204)	$ROE = \frac{laba bersih setelah pajak}{Equity}$	Ratio
Debt To Equity (X3)	The use of debt and capital to measure how big the ratio of a company is. (Irham Fahmi 2014: 95)	$DER = \frac{Total liabilitas}{Total Ekuitas}$	Ratio
Current Ratio (X4)	compare the current assets of a company with current liabilities. (Sutrisno 2009: 216)	$Current Ratio = \frac{Aktiva Lancar}{Hutang Lancar} \times 100$	Ratio
Stock Return (Y)	Results or benefits for companies or those who carry out investment activities. (Irham Fahmi 2013: 205)	$Return Saham = \frac{P_t - P_{t-1}}{P_{t-1}}$	Nominal

### 3.5 Classic Asumsi test

Indicates whether or not a regression model is able to perform further testing in a hypothesis testing used for one study (Ghozali 2011: 96). Normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test are test tools for this study.

### 3.6 Research Data Model and Analysis

#### a. Research Model

The use of techniques to analyze data uses multiple regression analysis techniques. The relationship between the independent variable and the dependent variable can be seen through multiple linear regression analysis. The following is the analysis model used, Gujarati (2003):

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_3X_3 + e$$

Information:

Y : Stock returns

a : Constants

b<sub>1</sub>, b<sub>2</sub>, b<sub>3</sub>, b<sub>4</sub> : Regression Coefficient

X<sub>1</sub> : Return On Asset

X<sub>2</sub> : Return On Equity

X<sub>3</sub> : Debt to Equity Ratio

X<sub>4</sub> : Current Ratio

e : Standard Error

#### b. Coefficient of Determination

Describe the extent to which the model is able to explain variations in the dependent variable. The ability of independent or independent variables will be very limited to explain the dependent variable (dependent) if the value is low. According to Ghozali (2013), the value that leads to one independent variable provides most of the information needed to predict the value leading to one independent variable and provides most of the information needed to estimate the form of the dependent variable.

#### c. Partial Hypothesis Testing (Exam)

The t test explains the effect of one independent variable individually in order to describe the type of dependent variable (Ghozali, 2016: 97). The way to test it is to compare tcount and ttable. The level of significance on the test is 5% or = 0.05. The measure used as the basis for comparison is, if tcount

<ttableH0 will be accepted and if tcount> ttable H0 will be rejected.

**d. Simultaneous Hypothesis Testing (UjiF)**

The F test shows simultaneously whether there is an influence of the independent variable on the dependent variable (Ghozali, 2013: 98). The way to test it is to compare Fcount with Ftable. The significant level on the test is 5% or = 0.05. The size used in the comparison basis is if Fcount <Ftable H0 will be accepted and if F count> Ftable H0 will be rejected.

**4. Research Results and Discussion**

**4.1 Research result**

**a. Descriptive statistics**

**Table 3**  
Descriptive Research Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	93	.0046	.4666	.089520	.0879466
ROE	93	.0074	1.3995	.205504	.2426375
DER	93	.1755	11.3043	1.992602	2.3024202
CR	93	.2797	5.2723	1.991946	1.1491759
Valid N (listwise)	93				

Source: Processed SPSS 21

It can be concluded that:

- 1) The Return On Asset variable has a minimum value of 0.0046 for PT Aneka Tambang Tbk., A maximum value of 0.4666 for PT Unilever Indonesia Tbk., A mean value of 0.08952, and a standard deviation of 0.0879466.
- 2) The Return On Equity variable has a minimum value of 0.0074 for PT Aneka Tambang Tbk., A maximum value of 1.3995 for PT Unilever Indonesia Tbk., A mean value of 0.205504, and a standard deviation of 0.2426375
- 3) The Debt to Equity Ratio variable has a minimum value of 0.1755 for PT Indocement Tunggal Prakarsa Tbk., A maximum value of 11.3043 for PT Bank Tabungan Negara Tbk., A mean value of 1.992602, and a standard deviation of 2.3024202
- 4) Current Ratio variable has a minimum value of 0.2797 for PT Jasa Marga Tbk., A maximum value of 5.2723 for PT HM Sampoerna Tbk., A mean value of 1.991946, and a standard deviation of 1.1491759

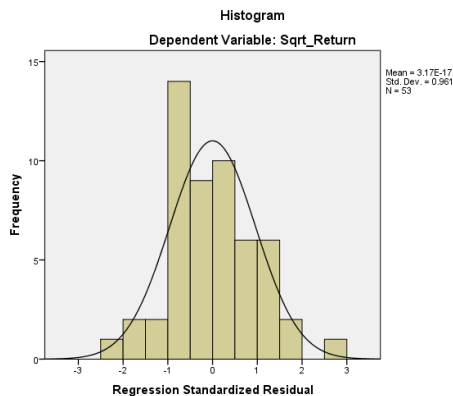
**4.2 Classical Assumption Test Results**

**a. Normality test**

The research data has problems that require this research to use the transformation using the Sqrt technique.

**1) Graph Analysis**

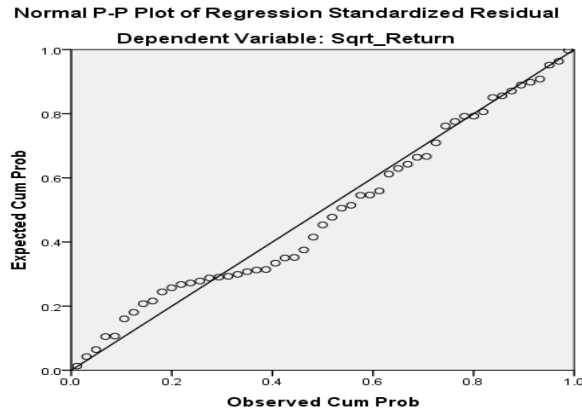
**a) Histogram Graph**



**Fig 2** Histogram Graph

The histogram graph forms a normal curve line so that it can be stated that the data is normally distributed.

**b) Normal Probability Plot**



**Fig 3** Normal Probability Plot

The PP Plot graph above shows the points follow the diagonal line and do not spread too far so that the data can be categorized as normally distributed.

**c) Statistic test**

**Table 4**

Kolmogorov Results	Unstandardized Residual		Smirnov Test
N			53
Normal Parameters <sup>a</sup> , b	Mean	.0000000	
	Std. Deviation	.23848397	
	Absolute	.107	
Most Extreme Differences	Positive	.107	
	Negative	-.066	
Kolmogorov-Smirnov Z		.777	
Asymp. Sig. (2-tailed)		.583	
a. Test distribution is Normal.			
b. Calculated from data.			

Source: Processed SPSS 21

Table 4 above shows that the significance value is  $0.583 > 0.05$ , so it can be concluded that the data is normal.

**b. Multicollinearity Test**

**Table 5**  
Multicollinearity Test

Model	Coefficients <sup>a</sup>	Collinearity Statistics	
		Tolerance	VIF
	(Constant)		
1	Sqrt_ROA	.142	7,020
	Sqrt_ROE	.281	3,553
	Sqrt_DER	.276	3,629
	Sqrt_CR	.507	1,973

a. Dependent Variable: Sqrt\_Return  
 Source: Processed SPSS 21

According to the analysis of the multicollinearity test results, the tolerance value of the four variables is > 0.10 and the VIF value is < 10. So it can be concluded that this study is free from multicollinearity.

c. **Autocorrelation Test**

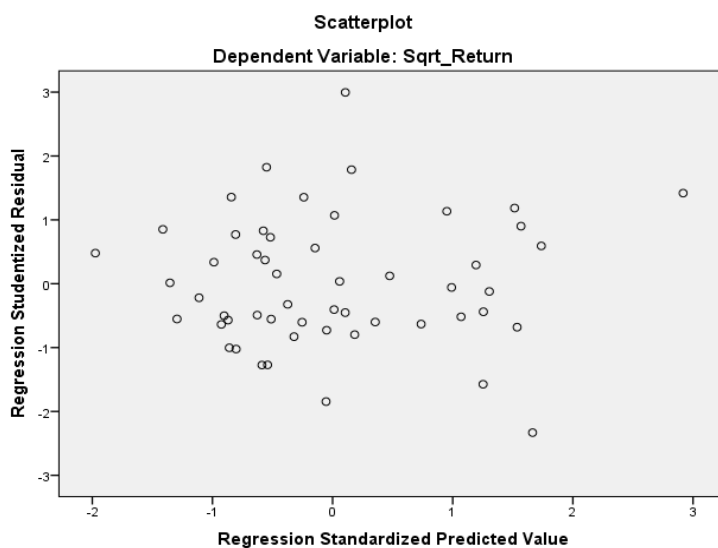
**Table 6**  
 Autocorrelation Test Run Test

Test Runs	
	Unstandardized Residual
Valuea Test	-.02904
Cases < Test Value	26
Cases > = Test Value	27
Total Cases	53
Number of Runs	22
Z	-1,524
Asymp. Sig. (2-tailed)	.128
a. Median	

Source: Processed SPSS 21

Autocorrelation test results with Run Test do not occur autocorrelation because the test value is -0.02904 and the significance value is 0.128, which means > than 0.05.

d. **Heteroskedasticity test**



**Fig 4** Scatterplot Graph Heteroscedasticity Test  
 Source: Processed SPSS 21



Figure 4 above shows that the plot has spread and it can be concluded that there is no heteroscedasticity.

### 4.3 Data Analysis and Research

#### a. Multiple Linear Regression Analysis

**Table 7**  
Multiple Linear Regression Analysis

Model	Coefficients <sup>a</sup>				
	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
	(Constant)	-220	.243		
1	Sqrt_ROA	.273	.898	.105	.304
	Sqrt_ROE	.236	.464	.125	.509
	Sqrt_DER	.209	.098	.525	2,122
	Sqrt_CR	.174	.129	.246	1,346

a. Dependent Variable: Sqrt\_Return  
Source: Processed SPSS 21

The conclusions obtained from the multiple linear regression analysis are:

$$\text{Return Saham} = -0,220 + 0,273 (X1) + 0,236(X2) + 0,209(X3) + 0,174(X4)$$

- 1) The cost value is -0.220, meaning that the variable ROA, ROE, DER, and CR = 0, therefore the value of the Stock Return will be -0.220.
- 2) The regression coefficient ROA value is positive, namely 0.273. This shows that if there is one additional value to ROA, there will be an increase in the value of Stock Return by 0.273 and if other variables are assumed to be zero.
- 3) The regression coefficient ROE value is positive, namely 0.236. This shows that if there is one additional value to ROE, there will be an increase in the value of Stock Return by 0.236 and if other variables are assumed to be zero.
- 4) The regression coefficient value for DER is positive, namely 0.209. This shows that if there is one additional value to DER, there will be an increase in the value of Stock Return by 0.209 and if other variables are assumed to be zero.
- 5) The regression coefficient CR positive value is 0.174. This shows that if there is one additional value to CR, there will be an increase in the value of Stock Return by 0.174 and if other variables are assumed to be zero.

#### b. Research Determination Coefficient

**Table 8**  
Coefficient of Determination

Model Summary b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.436a	.190	.123	.24822	1,679

a. Predictors: (Constant), Sqrt\_CR, Sqrt\_ROE, Sqrt\_DER, Sqrt\_ROA  
b. Dependent Variable: Sqrt\_Return

Source: Processed SPSS 21

The determination coefficient test showed that the adjust r square value is 0.123. This means that 12.3% of stock returns are influenced by ROA, ROE, DER, and CR, the remaining 87.7% is influenced by other variables outside of this study.

**c. F test**

**Table 9**  
F Test Results

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.694	4	.173	2,816	.035b
	Residual	2,957	48	.062		
	Total	3,651	52			

a. Dependent Variable: Sqrt\_Return

b. Predictors: (Constant), Sqrt\_CR, Sqrt\_ROE, Sqrt\_DER, Sqrt\_ROA

Source: Processed SPSS 21

The ANOVA table above shows that the value of Fcount is 2.816, with  $df1 = 4 - 1 = 3$  and  $df2 = 93 - 4 = 89$ . Therefore  $Fcount\ 2.816 > Ftable\ 2.71$  so with this  $H_0$  cannot be accepted and  $H_a$  is accepted and the significant value is  $0.035 < 0.05$  so that ROA, ROE, DER, and CR simultaneously have a positive and significant effect on Stock Returns in LQ 45 Index companies listed on the IDX.

**d. T test**

**Table 10**  
T Test Results

Model	Coefficients <sup>a</sup>				T	Sig.
	Unstandardized Coefficients		Standardized	Beta		
	B	Std. Error	Coefficients			
(Constant)	-.220	.243			-.905	.370
Sqrt_ROA	.273	.898	.105		.304	.762
1 Sqrt_ROE	.236	.464	.125		.509	.613
Sqrt_DER	.209	.098	.525		2,122	.039
Sqrt_CR	.174	.129	.246		1,346	.184

Source: Processed SPSS 21

The value of t table with a profitability of 0.05 which is located at  $n - k = 93 - 4 = 89$  of 1.98698 and the results of the T test above are:

- 1) The significant value of ROA on Stock Returns is  $0.762 > 0.050$  and has a tcount of 0.304 < t table of 1.98698. So it can be concluded that ROA does not affect stock returns and is not significant.
- 2) The significant value of ROE on Stock Returns is  $0.613 > 0.050$  and has a tcount of 0.509 < t table of 1.98698. So it can be concluded that ROE does not affect stock returns and is not significant.
- 3) The significant value of DER on Stock Returns is  $0.039 < 0.050$  and has tcount 2.122 > t table 1.98698. So it can be concluded that DER has a positive and significant effect on stock returns.
- 4) The significant value of CR on stock returns is  $0.184 > 0.05$  and has a tcount of 1.346 < t table 1.98698. So it can be concluded that CR does not affect stock returns and is not significant.

**4.4 Discussion of Research Results**

**a. The Effect of Return On Assets on Stock Returns**



This study says that ROA partially does not affect stock returns and is not significant for companies with LQ 45 Index on the IDX. For that H1 cannot be accepted. ROA is used as a measuring tool for companies to generate profits. The increase in assets within the company should provide an increase in profits, but in the research under study it is proven that the increased company assets do not increase the return on several companies. This causes the stock price to fall and prevents investors from getting the expected return on shares. A decrease in profit can also reduce dividends for shareholders. The absence of stock returns is due to the varying share prices and lower profit sharing for shareholders, so that investors are reluctant to invest in the company.

This research is the same as research that has been researched by Fadhlun Nur Aulia Samalam, Marjam Mangantar, and Ivonne S. Saerang (2018) and research conducted by Arif AA Mangantar, Marjam Mangantar, and Dedy N. Baramuli (2020) said that ROA does not affect and not significant to stock returns.

**b. The Effect of Return On Equity on Stock Return**

This study states that ROE partially does not affect stock returns and is not significant for companies with the LQ 45 Index on the IDX. For that H2 was rejected. This means that high or low ROE does not affect the investor's decision to make an investment, if the company can manage as best as possible the capital owned by the company will get a profit. The decrease in the company's capital does not mean that it has an immediate negative impact on stock returns.

This research is in line with research studied by Mutiara Tumanggor, Sri Murni, and Paulina Van Rate (2017), and researched by Sumaryanti (2016) who said that ROE does not affect and is not significant towards Stock Returns.

**c. The Effect of Debt to Equity Ratio on Stock Return**

This study says that DER partially has a significant and positive effect on stock returns in the LQ 45 Index company on the IDX. For that H3 is acceptable. The results of this study provide different statements to several investors, where usually if the DER has a high value, some investors will view the company as having a large burden on its debts and investors will think that a high DER has the potential to reduce dividends that investors should get in their investments because the company has an obligation to meet its debts. But this study shows the views of several different investors where companies that want to grow and develop must require debt as additional company funds.

According to Susilowati (2011), the greater the debt ratio to the profit generated before interest and taxes in obtaining higher earnings per share, the higher the use of liabilities. DER will have a theoretically positive effect on stock returns if an increase in earnings per share results in an increase in price and stock returns.

This research is in line with the research studied by Khairani et.al (2014) and research by Juwita Rini Dwi Anjani (2016) which states that DER has a significant and positive effect on stock returns.

**d. The Influence of Current Ratio on Stock Return**

This study says that CR partially does not affect stock returns and has no significance in the LQ 45 Index company on the IDX. For that means H4 cannot be accepted. Investors usually assume that a low CR value will cause problems in liquidity and become the starting point for the company not to be able to meet its short-term obligations. As well as seeing that the increased CR value makes the company's ability to be even greater to fulfill company activities, especially working capital. This affects stock price performance, so that it can make investors confident in investing and make stock returns increase. Meanwhile, the research states that a high CR value means that it has high liquidity as well.

**5. Conclusion**

After testing the data, it can be concluded that partially only the Debt to Equity Ratio has a positive and significant effect on stock returns, while Return On Asset, Return On Equity, and Current Ratio do not affect and are not significant for stock returning. But simultaneously Return On Asset, Return On Equity, Debt to Equity Ratio, and Current Ratio have a positive and significant effect on Stock Returns.

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