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# The Influence of Market To Book Value Of Asset Ratio, Market To Book Value Of Equity Ratio, Capital Expenditure To Book Value Of Assets And Earning Per Share On Stock Returns In LQ-45 Companies Listed On The Indonesia Stock Exchange 2013-2018

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***Abstract***

*This study aims to analyze the effect of Market to Book Value of Asset Ratio (MKTBKASS), Market to Book Value of Equity Ratio (MKTBKEQ), Capital Expenditure to Book Value of Asset (CAPBVA), Earning per Share (EPS) on LQ 45 company stock returns on the Indonesia Stock Exchange for the period 2013-2018. This research is an explanatory research that explains the causality relationship using secondary data with a population of 45 companies incorporated in the LQ45 index on the Indonesia Stock Exchange in 2018. A sample of 35 companies were selected using the purposive sample method in accordance with predetermined criteria, one of which was to have a report finance in 2013-2018. The analytical method used is panel data regression. The results of this study indicate that partially, with a 95% confidence level Market to Book Value of Equity Ratio (MKTBKEQ) and Earning Per Share (EPS) significantly influence the LQ 45 company stock returns. Meanwhile Market to Book Value of Asset Rati (MKTBKASS) and Capital Expenditure to Book Value of Asset (CAPBVA) partially do not significantly influence the LQ45 company's stock returns. Simultaneously, all variables together affect the value of stock returns. Meanwhile based on the coefficient of determination obtained, it can be concluded that all independent variables are able to explain 21.64 percent of the variation in the stock prices of LQ 45 companies in Indonesia during 2013-2018 while the rest are explained by other variables.*

***Keywords : Market to Book Value of Asset Ratio (MKTBKASS), Market to Book Value of Equity Ratio (MKTBKEQ, Capital Expenditure to Book Value of Asset (CAPBVA), Earning Per Share (EPS) and Stock Return***

## INTRODUCTION

In recent years, the Indonesian capital market has attracted the attention of many parties, especially the business community. This is caused by increasingly developing capital market activities and the increasing desire of the business community to seek alternative sources of business financing other than banks. A company can issue shares and sell them on the capital market to obtain the necessary funds, without having to pay fixed interest charges as if borrowing from a bank. Apart from that, the development of the capital market is also influenced by increasing public awareness about investing or becoming investors.

When investing in shares, the investor's hope is to obtain a return. Investors' assessment of a company's shares includes paying attention to the performance of the company issuing the shares. Therefore, stock returns are very important for companies because they are used as a measure of the performance of a company, so that companies try to maintain and improve their performance which can influence stock returns so that the invested stock portfolio increases.

Investors need information when making investments, so that investors know the risks that will be faced in the investment, the returns that will be obtained from the investment, and investors also know when to buy or sell shares. Indirectly, this information will influence daily stock trading and daily stock returns So that the returns obtained by investors will be in accordance with the information received by investors.

To predict stock returns, many factors can be used as parameters, one of which is the company's financial information. Financial reports are important information for potential investors, because from these financial reports the performance of a company can be seen. Performance is a measure of the success of every business. Various performance measurement techniques have been developed to provide a precise picture of any business. Good management performance and operational activities can increase net profit, thereby making the price per share high. In investing their capital, investors will best consider which company they will invest their capital into. The company chosen is of course a company that is healthy and produces good performance.

Every business company always wants its company to continue to grow and develop, the value of its assets continues to increase in accordance with expectations and forecasts. According to Smith (1992) company growth can be combined with various combinations of investment opportunity set (IOS) values. According to Myers (1977) the Investment Opportunity Set provides broader guidance where the value of the company as the main objective depends on the company's future expenditure. IOS cannot be observed directly (latent) so the calculation uses Ratio market to book assets (MKTBKASS), Ratio market to book equity (MKTBKEQ), Ratio earning price (EP), Research and development expense to book value of total assets (R&D ), Variance (VAR), and FUND as a proxy for IOS itself (Kallapur and Trombley, 1999.) According to Gaver and Gaver (1993) stated that the value of this investment option depends on the discretionary expenditure incurred by the manager in the future.

Various previous studies related to the effect of investment opportunity set on stock returns used market to book value assets, market to book value equity, earnings per share ratio, capital expenditure to book value of assets, capital expenditure to market value of assets, as proxies due to IOS is a latent variable that cannot be observed. This is supported by research by Kallapur and Trombley (1999) which states that a company's investment opportunity set cannot be observed by parties external to the company.

Various variables as proxies for investment opportunity sets have been widely researched and tested in various studies such as spread value over cost, stock returns, market value, total assets as stated by Fama and French (1998); Mc Connell and Muscarella (1984); Masulis (1980); Wright and Ferris (1997), which literally means the value of the company itself is observed and assessed through shareholder prosperity as measured by the company's share price on the capital market.

Smith and Watts (1992) stated the proportion of the association between a company's investment opportunity set with funding policy, dividend policy, and compensation. They managed to find that growth firms were more likely to use lower debt, pay smaller dividends, as well as pay greater compensation to their executives and also rely on stock option plans, when compared with companies that had greater growth opportunities. low. Risanty (2004) shows that the MVA/BVA and MVE/BE ratios are positively correlated with company growth and are significant for asset and sales growth. P/E has a positive correlation with growth in profits, assets and sales but is inversely correlated with a negative correlation with realized equity growth.

LQ 45 is one of the indices on the Indonesia Stock Exchange (BEI), where the index is obtained from calculations of 45 issuers with selection criteria such as assessing liquidity. What is meant by liquidity assessment is the selection of issuers also taking into account market capitalization. The purpose of the LQ 45 index is to complement the IHSG and in particular to provide an objective and reliable means for financial analysts, investment managers, investors and other capital market observers in monitoring price movements of actively traded shares.

This research will use the LQ-45 Index for research because the companies listed in the LQ-45 Index have high stock liquidity and are also considered stock market capitalization. On the Indonesian Stock Exchange, the average LQ-45 stock return from 2013 to 2018 has a different value each year, as shown in the

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following


**Figure 1. Average LQ-45 stocks index return 2013-2018**

Source: IDX, 2019


**Figure 2. Trend LQ-45 stocks index LQ-45 During 5 Years**

Source: IDX, 2019

Based on the two graphs above, we can see a trend of increasing share prices from 2013 to 2018, but the increase in share prices is not supported by an increase in share returns received by investors. Stock returns actually fluctuated during 2013-2018.

Myers (1977) describes the value of a company as a combination of assets in place (assets owned) and investment options (future investment choices). According to Smith and Watts (1992), companies that grow will be responded to by the market and company growth opportunities can be seen in investment opportunities which are proxied by various investment opportunity set values (IOS or Investment Opportunity Set). The phenomenon that occurs is that the company's total assets increase, not supported by increased stock returns as well.

Seeing the phenomena that occur in several companies listed in LQ 45, the research is intended to measure the influence of Market to Book Value of Asset Ratio (MKTBKASS), Market to Book Value of Equity Ratio (MKTBKEQ), Capital Expenditure to Book Value of Assets (CAPBVA) and Earning per Share on stock returns in LQ-45 companies listed on the IDX in 2013 - 2018

METHOD

The type of research used in this research is verification research, namely research that aims to test the truth of a hypothesis which is carried out through data collection in the field. The research method used is explanatory research or explanatory research because it is explanatory, namely explaining the relationship and influence of the dependent variable with the independent variable.

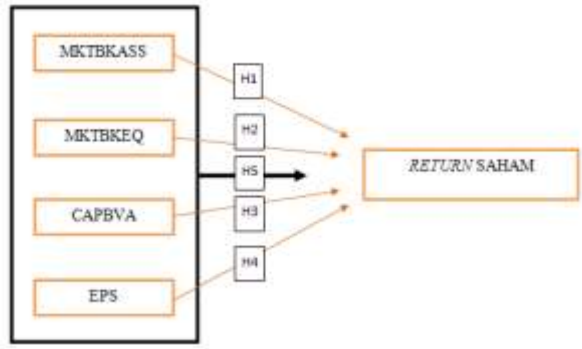


**Figure 3 Research Design**

The data used in this research is secondary data obtained indirectly or through intermediaries (recorded and processed by other parties), in the form of financial reports of LQ-45 index companies listed on the Indonesian Stock Exchange (BEI) via the official BEI website (www. idx.co.id )

The population in this study are all LQ45 index companies listed on the Indonesia Stock Exchange for the period 2013 to 2018 and publishing financial reports as of December 31 for the 2013 - 2018 financial year. The total population of LQ45 index companies listed on the IDX is 45 companies. However, of this population, not all companies have the complete series of data required according to the criteria that have been set from 2013 to 2018. The number of companies that meet the criteria is 33 companies.

The data analysis method uses panel data regression analysis using Eviews Version 9 software.

The research hypothesis proposed in this study is as follows:
H1: There is a significant influence between Market to Book Value of Asset Ratio (MKTBKASS) on stock returns in LQ 45 companies listed on the Indonesia Stock Exchange.
H2: There is a significant influence between Market to Book Value of Equity Ratio (MKTBKEQ) on stock returns in LQ 45 companies listed on the Indonesia Stock Exchange.
H3: There is a significant influence between Capital Expenditure to Book Value of Assets (CAPBVA) on stock returns in LQ 45 companies listed on the Indonesia Stock Exchange.
H4: There is a significant influence between Earning per Share on stock returns in LQ 45 companies listed on the Indonesia Stock Exchange.
H5: There is a significant influence of Market to Book Value of Asset Ratio (MKTBKASS), Market to Book Value of Equity Ratio (MKTBKEQ), Capital Expenditure to Book Value of Assets (CAPBVA) and Earnings per Share, on simultaneous stock returns in the company LQ 45 which is listed on the Indonesian Stock Exchange.

**RESULT**

**Table 1. T Test Result**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -0.334456 | 0.100781 | -3.318647 | 0.0012 |
| X1? | 0.125244 | 0.120342 | 1.040732 | 0.2998 |
| X2? | 0.150902 | 0.045460 | 3.319448 | 0.0011 |
| X3? | -0.095854 | 0.201629 | -0.475397 | 0.6352 |
| X4? | 0.000207 | 7.85E-05 | 2.642086 | 0.0092 |

The results of processing using Eviews 9 software are as seen in table 1 above which shows the test results between the dependent variable and the independent variable which were carried out using the t test, the results are as follows:

H1: At the 95% confidence level, the MKTBKASS variable has no significant effect on stock returns of LQ 45 companies. This can be seen from the significance value of 0.2998 which is greater than the value of α = 0.05.
H2: At the 95% confidence level, the MKTBKEQ variable has a significant positive effect on stock returns of LQ 45 companies. This can be seen from the significance value of 0.0011 which is smaller than the value of α = 0.05.
H3: At the 95% confidence level, the CAPBVA variable has no significant effect on share returns of LQ 45 companies. This can be seen from the significance value of 0.6352 which is greater than the value of α = 0.05.
H4: At the 95% confidence level, the Earning per Share (EPS) variable has a significant positive effect on stock returns of LQ 45 companies. This can be seen from the significance value of 0.0092 which is smaller than the value of α = 0.05.

Tabel 2. Uji F

| Effects Specification | | | |
|---|---|---|---|
| Cross-section fixed (dummy variables) | | | |
| R-squared | 0.361342 | Mean dependent var | 0.058218 |
| Adjusted R-squared | 0.216398 | S.D. dependent var | 0.353053 |
| S.E. of regression | 0.312527 | Akaike info criterion | 0.680762 |
| Sum squared resid | 13.77189 | Schwarz criterion | 1.279893 |
| Log likelihood | -26.22628 | Hannan-Quinn criter. | 0.923806 |
| F-statistic | 2.492984 | Durbin-Watson stat | 2.624173 |
| Prob(F-statistic) | 0.000134 | | |

Based on the table above, it shows that the F test results with a significance of 0.000134 have a value smaller than α = 0.05, which means that:
H5: at a 95% confidence level Market to Book Value of Asset Ratio (MKTBKASS), Market to Book Value of Equity Ratio (MKTBKEQ), Capital expenditure to Book Value of Assets (CAPBVA) and Earning per Share (EPS) together has a significant effect on the stock price variable.
Based on data analysis using the Eviews Version 9 program, it shows that the Adjusted R Square coefficient value is 0.216398. This means that 21.6398% of the stock return variable can be explained by the variables Market to Book Value

of Asset Ratio (MKTBKASS), Market to Book Value of Equity Ratio (MKTBKEQ), Capital expenditure to Book Value of Assets (CAPBVA) and Earnings per Share (EPS). Meanwhile, the rest is influenced by other variables that are not in this model.

From the tests that have been carried out, the following regression equation model is obtained:

$$y_{ti} = x_{ti}\beta + c_i + \varepsilon_{ti}$$

$$y_{ti} = -0.334456 + 0.125244x_{t1} + 0.150902x_{t2} - 0.095854x_{t3} + 0.000207x_{t4}$$

Keterangan:
$y_{ti}$ : LQ 45 Stocks Index Value in Indonesia
$x_{t1}$ : Market to Book Value of Asset Ratio
$x_{t2}$ : Market to Book Value of Equity Ratio
$x_{t3}$ : Capital expenditure to Book Value of Asset
$x_{t4}$ : *Earning Per Share*

The interpretation of the regression model above is as follows:
1. The Constant Coefficient is as large as it means that under constant conditions, the stock return value is as large as assuming an independent variable ceteris paribus.
2. The MKTBKASS coefficient is equal, meaning that every one unit increase in MKTBKASS will increase stock returns by as much as assuming other variables are considered constant.
3. If the MKTBKEQ coefficient is large, it means that every one unit increase in MKTBKEQ will increase stock returns by as much as assuming other variables are considered constant.
4. If the CAPBVA coefficient is large, it means that every one unit increase in CAPBVA will reduce stock returns by as much as assuming other variables are considered constant.
5. The Earning Per Share coefficient is equal, meaning that every one unit increase in Earning Per Share will increase stock returns by as much as assuming other variables are considered constant

## CONCLUSIONS AND RECOMMENDATIONS

The results of the analysis of the Market to Book Value of Asset Ratio (MKTBKASS), Market to Book Value of Equity Ratio (MKTBKEQ), Capital expenditure to Book Value of Assets (CAPBVA) and Earning per Share (EPS) on the stock returns of the listed LQ 45 companies on the Indonesian Stock Exchange for the 2013-2018 period, it can be concluded as follows:
1. Market to Book Value of Asset Ratio does not have a significant effect on the stock returns of the LQ 45 company at the 95% confidence level because the t test results produce a significance value of 0.2998 which is greater than the value of α = 0.05. Market to Book Value of Assets is used to measure a company's growth prospects based on the number of assets used in running its business. For investors, this proxy is a consideration in assessing the company's condition, but the results of this research conclude that this ratio is not appropriate when used by investors to measure profits in the form of stock returns.
2. Market to Book Value of Equity Ratio has a significant negative effect on LQ 45 company stock returns at the 95% confidence level because the t test results produce a significance value of 0.0011 which is smaller than the value of α = 0.05. Market to Book Value of Equity is a proxy based on price. This proxy describes the capital of a company. This ratio can be obtained by multiplying the number of outstanding shares by the closing price of shares to total equity. For investors who wish to purchase company shares, assessing the company's ability to obtain and manage capital is important. The results of this research conclude that this ratio is quite appropriate when used by investors to measure profits in the form of stock returns
3. Capital Expenditure to Book Value of Assets does not have a significant effect on the stock returns of the LQ 45 company at the 95% confidence level because the t test results produce a significance value of 0.6352 which is greater than the value of α = 0.05. This ratio is used to see the size of the flow of additional company share capital. With this additional share capital, the company can use it to additionally invest in its productive assets, so that it has the potential for the company to grow. Investors can see how big a company's additional capital flows are by dividing capital expenditure by total assets. The results of this research conclude that this ratio is quite appropriate when used by investors to measure profits in the form of stock returns Earning Per Share has a significant effect on LQ 45 company

stock returns at a 95% confidence level because the t test results produce a significance value of 0.0092 which is smaller than the value of $\alpha$ = 0.05. Earning Per Share or income per share is a form of profit given to shareholders from each share they own. Earning Per Share describes the amount of rupiah earned for each ordinary share or net profit per ordinary share. However, the results of this research conclude that this ratio is not appropriate when used by investors to measure profits in the form of stock returns

Market to Book Value of Asset Ratio, Market to Book Value of Equity Ratio, Capital expenditure to Book Value of Asset and Earning per Share simultaneously have a significant effect on the LQ 45 company stock return variable at the 95% confidence level because the F test results produce a significance value equal to 0.000134 which is smaller than $\alpha$ = 0.05..

Some suggestions from this research include:

1. For investors

a. Market to Book Value of Asset Ratio is used to measure a company's growth prospects based on the number of assets used in running its business. For investors, this proxy is a consideration in assessing the company's condition, but the results of this research conclude that this ratio is not appropriate when used by investors to measure profits in the form of stock returns.

b. Market to Book Value of Equity Ratio is a proxy that describes a company's capital. For investors who wish to purchase company shares, assessing the company's ability to obtain and manage capital is important

c. Capital Expenditure to Book Value of Assets is used to see the size of the flow of additional company share capital. With this additional share capital, the company can use it to additionally invest in its productive assets, so that it has the potential for the company to grow. Investors can see how big a company's additional capital flows are by dividing capital expenditure by total assets

d. Earning Per Share or income per share is a form of profit given to shareholders from each share they own. Earning Per Share cannot be used as a consideration for investors who want to invest in a company because it cannot measure stock returns significantly.

2. For Companies

It is hoped that companies can provide financial information that is objective, relevant and whose validity can be tested. In this case, it is done for investors to be able to see the development and condition of a company listed on the Indonesia Stock Exchange, so that they can convince investors in making decisions about buying company shares.

3. For future researchers

a. It would be better to carry out further research regarding the factors that influence stock prices, then it is hoped that other financial ratios will be added as more varied independent variables, it is very possible for other financial ratios to be included in the research

b. Future research is expected to increase the research period and diversity of sectors studied in order to obtain more accurate results regarding stock prices

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