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ANALYSIS OF THE EFFECT OF OPERATING CASH FLOW, ACCOUNTING PROFIT, AND LEVERAGE ON STOCK RETURNS IN PHARMACEUTICAL SUBSECTOR COMPANIES IN INDONESIA STOCK EXCHANGE FOR THE 2019-2021 PERIOD

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Abstract: This research is motivated by the problem of stock returns in pharmaceutical subsector companies experiencing fluctuating or instability and even decreasing every year, especially from 2019 to 2021. The analysis technique in this study uses descriptive statistical analysis, classical assumption test, Multiple Linear Regression Analysis, and hypothesis testing which is analyzed with SPSS Statistics version 26. The purpose of this study was to determine the effect of operating cash flow, accounting profit, and leverage (DER) on stock returns, either partially or simultaneously in Pharmaceutical Subsector companies on the Indonesia Stock Exchange for the 2019-2021 period. The results of the study show that operating cash flow has a positive and significant effect on stock returns, accounting profit has a positive and significant effect on stock returns, leverage using debt to total equity ratio has a positive and significant effect on stock returns, and the results of the analysis using the F test in this study shows that operating cash flow, accounting profit and leverage as measured by DER have a significant effect on stock returns simultaneously have a significant effect on stock returns.

Keywords: Operating Cash Flow, Accounting Profit, Leverage, and Stock Return

Introduction

The economy is currently in the era of globalization, especially in the business world which is marked by increasingly fierce competition. Business capital is needed for a business, where capital is an obstacle for the company. Capital market companies exist as a medium that provides capital or services that lend funds (issuers) to owners of funds (investors). The function of the capital market is to collect public funds from various sectors that invest (Tandelin, 2010). Profit (return) is what investors expect in the future when investing in the capital market. Investors can choose investment alternatives that provide optimal returns, which can facilitate the creation of an efficient capital allocation. Therefore, before investors make investment decisions, it is very important to collect accurate information, one of which is through the company's financial statements. Information on operating cash flow, accounting profit and the level of company leverage is a parameter of a company's financial performance that attracts the attention of investors and creditors in evaluating company performance and making investment decisions.

As we know that the Covid-19 pandemic not only has an impact on public health, but also the economy has become paralyzed. Many economic sectors have suffered losses, but there is one sector that is estimated to be able to survive the Covid-19 pandemic, namely the pharmaceutical sector. The pharmaceutical sector will play an important role in helping the country overcome the pandemic that has occurred. Compared to other sectors, the profit of pharmaceutical companies tends to increase due to the high demand for medicines and medical devices (Noviarty and Edryani, 2021).

Table 1. Stock Return Data for 8 Pharmaceutical Sub-Sector Companies

NO	STOCK CODE	2019	2020	2021
1	DVLA	-0,28	0,73	0,14
2	KAEF	-0,52	2,40	-0,43
3	KLBF	2,07	-0,09	0,09
4	MERK	-0,34	0,15	0,13
5	PEHA	-0,62	0,58	-0,35

6	PYFA	0,05	3,92	0,04
7	SIDO	0,52	-0,37	0,07
8	TSPC	2,00	0,00	0,07

Source: www.idx.co.id (data processed, 2022)

Table 1 is data from several companies in the pharmaceutical subsector that are the research sample. From the data above, we can see that stock returns fluctuate or are unstable and even decline every year, especially from 2019 to 2021, where the expectation of stock returns increases every year. This is because in recent years there have been fluctuations in the company in determining stock prices which have an impact on stock returns, cash flow turnover, accounting profit levels and the company's leverage level. Besides that, fluctuations in the rupiah exchange rate against foreign currencies, investors panic. This releasing its shares, as well as government policies.

Research on the analysis of the effect of operating cash flow, accounting profit, and DER on stock returns has also been carried out previously. However, the results of the study indicate that there is a research gap, namely there are inconsistencies in the results of previous studies that have been formulated with all supporting data. The results of research by Nurwanah et al. (2021) found that operating cash flow and accounting profit had a significant positive effect on stock returns. Damayanti (2019) concludes that accounting earnings have a positive and significant effect on stock returns. While operating cash flow has no significant effect on stock returns. Tumble et al. (2017) which states that accounting profit has a positive and significant effect on stock returns. Meanwhile, the results of Nainggolan and Lestari's research (2019) showed the opposite, namely accounting profit and operating cash flow had no significant effect on stock returns. The results of Kanivia (2020) research interpret that DER has an effect on stock returns. However, Ander et al. (2021) concluded that the leverage ratio proxied by the debt to equity ratio (DER) has no significant effect on stock returns. Purba and Marlina (2019) showed that the Debt to equity ratio (DER) had a positive and insignificant effect on stock returns. Lestari and Cahyono (2020) which states that the Debt to Total Equity Ratio has a positive and significant effect on stock returns. While the research of Amiruddin and Suhardiyah (2021) obtained the opposite result, namely the Debt to Equity Ratio had no effect on stock returns. In addition, this research was also conducted because it saw an opportunity to expand previous research. This research was conducted to determine the effect of operating cash flow, accounting profit, and leverage (DER) on stock returns either partially or simultaneously in Pharmaceutical Subsector companies on the Indonesia Stock Exchange for the 2019-2021 period.

Methods

This type of research is quantitative using a causal associative approach. The quantitative data of this study are secondary data, namely data that has been processed and obtained from annual financial reports, namely cash flow statements, income statements, and balance sheets as well as stock price data at closing (closing price). The location of this research was carried out at Pharmaceutical Subsector companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. The population in this study are all companies engaged in the Pharmaceutical Sub-sector on the Indonesia Stock Exchange for the 2019-2021 period. Sampling in this study used a purposive sampling method, based on predetermined criteria, a sample of 8 companies was obtained. The independent variables in this study are operating cash flow (X1), accounting profit (X2), and leverage (X3). The dependent variable of this research is stock return (Y). The data collection techniques and instruments used are library research and documentation. The analysis technique in this study uses descriptive statistical analysis, classical assumption test, Multiple Linear Regression Analysis, and hypothesis testing which is analyzed with SPSS Statistics version 26.

Result and Discussion

• Description of Research Results

- Descriptive statistics

Descriptive statistics are statistics used to analyze data by describing or describing the data that has been collected as it is without intending to make conclusions that are generally accepted or generalized (Sugiyono, 2012).

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
Operating Cash Flow	24	-11,80	85,01	264,38	11,0158	23,54741
Accounting Profit	24	-8,75	22,29	50,68	2,1117	6,23484
Leverage	24	0,00	213,05	324,56	13,5233	45,55949
Stock returns	24	-0,62	3,92	9,96	0,4150	1,09940
Valid N (listwise)	24					

Source: Secondary data processed, 2022

The results of the descriptive statistics illustrate that the operating cash flow variable has a value range of -11,80 to 85,01 with a total value of 264,38. The mean value is 11,0158 and the standard deviation is 23,54741. The accounting profit variable has a value range of -8,75 to 22,29 with a total value of 50,68. The average value is 2,1117 and the standard deviation is 6,23484. The leverage variable as measured by the DER ratio has a range of values from 0,00 to 213,05 with a total value of 324,56. The average value is 13,5233 and the standard deviation is 45,55949. The stock return variable has a value range of -0,62 to 3,92 with a total value of 9,96. The average value is 0,4150 and the standard deviation value is 1,09940.

- Classic assumption test

Classical assumption test is a prerequisite that must be done when processing secondary data before testing the hypothesis. The classical assumption test consists of the first, normality test using the One Sample Kolmogorov-Smirnov test using a significance level of 0,05. Normal data if the significance is greater than 0,05 (Ghozali, 2018). The significance value of the resulting normality test is 0,129. This value is greater than the significance limit of the Kolmogorov-Smirnov test, which is 0,05. Thus, the regression model is normally distributed and the data is also normally distributed. Second, the autocorrelation test was carried out using the dW test method. If the dW value is above the upper limit (dU) and below the 4-dU value, then there is no autocorrelation disorder. The results of the autocorrelation test show that the dW test is 1,894 above the upper limit (dU) of 1,656 and below the 4-du value of 2,344, so the regression model of this study is free from autocorrelation disorders. Third, the multicollinearity test which can be seen through the value of tolerance and variance inflation factor (VIF). The results of the Multicollinearity Test show that each independent variable, namely operating cash flows, accounting funds and leverage, as measured by the DER ratio, has a VIF value of less than 10 and a tolerance value of more than 0,1. So it can be concluded that there is no correlation or relationship between independent variables. Fourth, the heteroscedasticity test analyzed by the Glejser test method uses the absolute residual value, where the significance value is more than 0,05, then the regression model is free from heteroscedasticity disorders. The results of the heteroscedasticity test show that the significance value of each independent variable is above 0,05. So there is no heteroscedasticity disorder.

- Multiple Linear Regression Analysis

Multiple linear regression analysis is intended to examine the effect of operating cash flow, accounting profit, and leverage (DER) variables on stock returns. This analysis was carried out with the help of IBM SPSS Statistics 26.0 using a significance level of 5%. The following are the results of multiple linear regression analysis in table 3.

Table 3. Multiple Linear Regression Analysis Results

Variabel	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	-0,092	0,174	
Operating Cash Flow	0,019	0,008	0,406
Accounting Profit	0,065	0,029	0,370
Leverage	0,012	0,003	0,492

a. Dependent Variable: Stock Return

Source: Secondary data processed, 2022

From the table, the regression equation is obtained as follows:

$$Y = -0,092 + 0,019X_1 + 0,065X_2 + 0,012X_3 + e$$

- Coefficient of Determination Analysis (R²)

The coefficient of determination test aims to describe the ability of the model that can occur in the dependent variable or to find out how large the percentage of the influence of the independent variable on the dependent variable simultaneously.

Table 4. Coefficient of Determination Test Results (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,787 ^a	0,619	0,562	0,72730

a. Predictors: (Constant), operating cash flow, accounting profit, leverage.

Source: Secondary data processed, 2022

In table 4 the results of the Coefficient of Determination Test (R²) it is shown that the R value is 0,787 or 78.7%. This means that the independent variable has an influence that is tied to the dependent variable, because the R value is above 5%. Furthermore, the value of Adjusted R Square (R²) is 0,562 or 56.2%, meaning that 56.2% of the independent variables in this study can affect the dependent variable, while 43.8% cannot be explained by the variables studied. This is because it is related to the limitations of the study.

• Discussion

- The Effect of Operating Cash Flow on Stock Returns in Pharmaceutical Sub-Sector Companies on the Indonesia Stock Exchange in 2019-2021

Operating cash flow has a positive and significant effect on stock returns in pharmaceutical sub-sector companies on the Indonesia Stock Exchange in 2019-2021. This means that the higher the company's operating cash flow, the higher the investor's confidence in the company, so the greater the value of the expected stock return. And conversely, the lower the company's operating cash flow, the smaller the investor's confidence in the company, so the smaller the value of the expected stock return. Investors will be very interested in increasing operating cash flow because it shows that the company is able to increase revenue in the future. This is in line with research conducted by Ander et al. (2021) which states that operating cash flow has a positive and significant effect on stock returns.

- The Effect of Accounting Profit on Stock Returns in Pharmaceutical Sub-Sector Companies on the Indonesia Stock Exchange in 2019-2021

Accounting profit has a positive and significant effect on stock returns in pharmaceutical sub-sector companies on the Indonesia Stock Exchange in 2019-2021. So it can be concluded that accounting profit has a positive and significant effect on stock returns. This is in line with the research conducted by Tumbel et al. (2017) which states that accounting profit has a positive and significant effect on stock returns. Significant influence because investors use accounting earnings information in financial statements as the basis for making investment decisions.

- The Effect of Leverage on Stock Returns in Pharmaceutical Sub-Sector Companies on the Indonesia Stock Exchange in 2019-2021

Leverage has a significant effect on stock returns in pharmaceutical sub-sector companies on the Indonesia Stock Exchange in 2019-2021. The higher the DER, the company also has to pay high interest costs. If this happens, it can result in a decrease in dividend payments because it is considered bad information by investors, so that the demand for company shares will decrease which results in a decrease in share prices. In these conditions, it indicates that the company's shares are less desirable which will directly reduce the company's stock return (Kasmir, 2012). The results of this analysis are in line with research conducted by Lestari and Cahyono. (2020) which states that the Debt to Total Equity Ratio has a positive and significant effect on stock returns.

- **Effect of Operating Cash Flow, Accounting Profit and Leverage on Stock Returns in Pharmaceutical Sub-Sector Companies on the Indonesia Stock Exchange in 2019-2021**

Operating cash flow, accounting profit, and leverage (DER) have a significant positive effect on stock returns simultaneously. This is because investors assume that information in financial statements, especially information in operating cash flow statements, accounting profits, and leverage levels Companies have an important role in making investment decisions. The results of this study are in line with research Nurwanah et al. (2021) which interprets that operating cash flows have a significant positive effect on the level of stock returns and accounting earnings have a positive and significant effect on the level of stock returns. Then this result is also in line with Lestari and Cahyono. (2020) which states that the Debt to Total Equity Ratio has a positive and significant effect on stock returns.

Conclusion

Based on the research results that have been discussed, the conclusions obtained from this study are operating cash flow has a positive and significant effect on stock returns, accounting earnings have a positive and significant effect on stock returns, leverage using debt to total equity ratio has a significant effect on stock returns, and operating cash flow, accounting profit and leverage as measured by DER have a significant effect on stock returns simultaneously have a significant effect on stock returns in pharmaceutical sub-sector companies on the Indonesian stock exchange.

The results of this study will provide input for users of financial statements, namely for investors and creditors, this research can be used as a basis for assessing management performance which is an initial consideration in the stock exchange transaction process and the stock investment decision-making process. For decision makers (executives), this research can be used as a basis for assessment and consideration in making decisions in the future. For pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange to evaluate financial performance, especially regarding operating cash flow, accounting profit and the level of leverage owned by the company considering that it can have an impact on stock returns.

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