

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance



Fritz Ondoy Sinaga<sup>1</sup>, M. L. Denny Tewu<sup>2</sup>

<sup>1,2</sup>Magister Manajemen Universitas Kristen Indonesia

**ABSTRACT:** As is well known, the Covid-19 pandemic has impacted pharmaceutical companies in Indonesia, which have played an active role in handling these extraordinary events. This study aims to determine the effect of company financial performance in terms of profitability ratios, liquidity ratios, and solvency ratios on stock returns in pharmaceutical companies in Indonesia for the 2017-2022 period. A total of eight companies listed on the Indonesia Stock Exchange were examined according to purposive sampling criteria. Observation of data from 48 annual financial reports processed using the Eviews 12 program. The results of this study indicate that Return on Assets (ROA) and Current Assets (CR) have a positive and significant effect on firm value. Earning per Share (EPS) does not affect Stock Return. Meanwhile, the Debt to Equity Ratio significantly negatively affects stock returns.

**KEY WORDS:** stock returns, company financial performance.

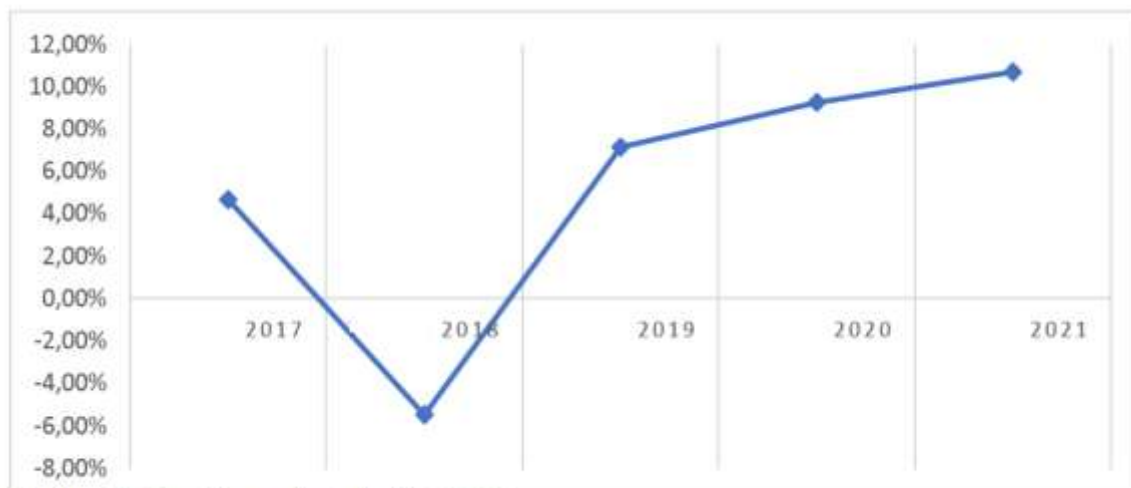
### INTRODUCTION

The development of the business world today is speedy. Investors quickly invest their capital across various countries. This rapidly growing business climate requires companies to continue to compete to improve their performance so that investors are interested in investing their money. In making investments, company management is required to provide good performance in the eyes of investors. This can be reflected in the value of the company's shares. The capital market is a means of meeting companies that need funds from the public with people who want to invest their funds, which aim to expand, business development, additional company working capital and others. The capital market has a vital role in the economy of a country. One of the investors' instruments in investing is stocks. Stocks are one of the most popular financial market instruments. Issuing shares is one of the company's choices when deciding on company funding. On the other hand, stocks are an investment instrument that many investors choose because stocks can provide attractive profit levels (IDX, 2022).

One of the developing business sectors is the pharmaceutical business sector. A pharmaceutical company is a business activity that includes the processing, distribution and marketing of medicinal products. Pharmaceutical companies continue to increase their productivity to remain competitive by issuing shares on the capital market to get investors who want to invest their capital. Pharmaceutical companies have been a promising sector in Indonesia for the past five years due to an increase in medical device manufacturers from 193 companies to 891 companies (BKPM, 2022). Investor interest in investing their funds in pharmaceutical companies is relatively high, taking into account the operational performance of pharmaceuticals which rarely stops; expanding product types and increasing demand for drugs are the primary keys driving the growth of the pharmaceutical market in Indonesia, which is always needed by the market (Tandellin, 2017). As Southeast Asia's largest drug market, Indonesia is one of the most attractive prospects for multinational investment. This has continuity with the positive prospects of the Indonesian pharmaceutical sector as the value-added sector preceded by Thailand and the Philippines. While the government continues to be committed to continuing to expand healthcare, plus financial support for the scheme may not be sufficient, the significant role of generic drugs is expected to continue as their relatively low costs match the low purchasing power of the public, limiting sales of pharmaceuticals and prospects for innovative manufacturers. Apart from that, looking at the global economy, which is generally declining in business due to the force majeure (pandemic) that has occurred, the pharmaceutical sector has been able to show the opposite performance. The main factor is the ongoing pandemic where people's purchasing power for medicines and vitamins is increasing, and the government is aggressively supplying medical needs and promoting vaccinations for the community, which has enabled these pharmaceutical sub-sector companies to increase production and sales to increase profits thereby maintaining share prices in the capital market did not drop significantly.

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

Return is income received from an investment plus changes in market prices, which are usually expressed as a percentage of the initial market price of the asset. Return is the difference between the amount received and invested divided by the amount invested (Kurniawan, 2021). In this case, knowing the return on investment investors will receive, potential investors must know how far the company has survived and developed its business through equity participation. In this study, the company objects used were pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period, where the average stock return can be seen in the following graph.



Sumber: Yahoo Finance data diolah (2022)

**Figure 1. Average Stock Return of Pharmaceutical Companies**

Source: Yahoofinance.com (data processed, 2023)

Figure 1.1 above shows that the average stock return for pharmaceutical sub-sector companies listed on the IDX in the 2017-2021 period shows a fluctuating growth rate that tends to increase. Stock returns in 2020 and 2021 continued to grow due to the significant impact of Covid-19, which resulted in a contraction in the capital market. An example can be taken from one of the samples in this study, namely PT Kimia Farma (KAEF). In the early days of the Covid-19 pandemic, pharmaceutical stock prices increased. It was recorded that pharmaceutical SOEs, a subsidiary of PT Bio Farma, including KAEF, shot more than 100% in mid-2020. Since early 2020, the price of KAEF's shares has skyrocketed to 254.40%. BPOM granted emergency use permits for the Sinovac coronavirus vaccine (Covid-19) the following year. This sentiment caused the stock prices of various pharmaceutical issuers in the country to increase. Several bio Farma issuers reached an all-time high within a year on January 2021. That year, KAEF shares rose by 51.76% year to date (IDX Channel, 2022).

Judging from the data that has been obtained and described regarding the phenomenon of fluctuations that occur in the average stock return of pharmaceutical sub-sector companies listed on the IDX for the 2017-2021 period, researchers are interested in examining this business sub-sector by using company financial ratios that aim to measure the success of a company in maintaining and increasing its stock return. This study uses several financial ratio variables that can reflect the company's economic performance. The company's financial performance can be seen from profitability, solvency, and liquidity ratios. These ratios can reflect the company's financial performance, which is essential information that investors should know regarding the stock return that will be received on the investment that has been carried out. This study uses Return on Assets (ROA) and Earning Per Share (EPS) as indicators to measure company profitability. The current Ratio (CR) measures the company's liquidity level, namely how capable it is of paying its short-term obligations. In addition, the level of solvency is measured by the Debt to Equity Ratio. Return On Assets (ROA) is a ratio that reflects the ability of the company's assets to generate net profit (Wahyudi et al., 2021). Return On Assets (ROA) measures how well management uses all assets to generate profit (Hidayat & Khotimah, 2022). The higher the Return On Assets (ROA) level, the better the financial performance because the returns generated are greater (Kurniawan, 2021). Increasing the Return on Assets (ROA) ratio will also increase the return rate for investors; by looking at a good Return On Assets (ROA) ratio, investors will be more interested in investing their funds in the company. Anggraini & Wijayanto (2021) explain that returns on assets affect stock returns. The results of this study are supported by Januar et al., (2022) and Ramadhani & Ratnasari (2022). However, this contradicts the research results by Rusdiyanto et al., (2020) and Kurniawan (2021), which explains that returns on assets have no significant effect on stock returns.

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

The Current Ratio (CR) is a ratio to measure a company's ability to pay short-term obligations using its current assets, which is obtained by calculating the total current assets divided by short-term liabilities (Sumira & Prihandini, 2022). The high Current Ratio (CR) is caused by uncollectible receivables and unsold inventories, which cannot be used quickly to pay off debts. A high Current Ratio (CR) shows a company in a liquid condition (Marito & Sjarif, 2020); liquid companies are more attractive to investors. If many investors are interested in buying the company's shares, the company's stock price will increase, and the company's stock returns will also increase (Supriantikasari & Utami, 2019). Melina & Steffani (2022) explained that the current ratio significantly affects stock returns. However, the results differ from Rahmadi (2020), which explains that the current ratio does not affect company returns. Adawiyah & Setiyawati (2019) and Novison et al. (2021) also shows that the current ratio negatively affects stock returns. The results of Siregar & Mardiana (2020) also show that the current ratio affects stock returns.

Earning Per Share (EPS) or profit per share is a measure of the ability per share of the owner (Melina & Steffani, 2022). Earning Per Share (EPS) is income in one period for all shares, then used by company leaders to determine the dividends to be distributed. An increase in EPS indicates an increase in liquidity, which means the company is in a condition where the company's performance is getting better. Good company performance will increase stock prices, and stock prices will increase stock returns. When a company has a high Earning Per Share (EPS) value, the profit that shareholders will obtain will be even more significant, increasing demand from investors. The research results by Sari & Astini (2020) explain that earnings per share positively affect stock returns. Oktaria & Arifa (2022) and Rahmawati & Hadian (2022) support this study's results. However, the results of this study are inversely proportional to Rahmadi (2020), which explains that earnings per share do not affect company value.

The Debt to Equity Ratio (DER) or leverage ratio is a ratio that measures the amount of own capital available to cover all of its debts (Alamgir & Cheng, 2021). The Debt to Equity Ratio (DER) guarantees how much the company's debt is certified by the company's capital used as a source of business funding. A high level of Debt to Equity Ratio (DER) shows that the composition of total debt (short-term debt and long-term debt) is more significant when compared to the total equity; this will have an impact on the company's burden on external parties (creditors). According to Prasetyo & Hermawan (2023), the greater the Debt to Equity Ratio (DER) shows that the business capital structure uses debt relative to equity. The research results of Rusdiyanto et al., (2020) and Astuti et al., (2020) explain that the debt-to-equity ratio affects stock returns. However, the results of this study contradict Anggraini & Wijayanto (2021) and Ramadhani & Ratnasari al., (2022).

Based on the phenomenon description and research gap above, many studies on stock returns have been carried out with inconsistent results. Furthermore, the researcher wants to conduct research by filling in this research gap. This study aims to find out and empirically test the effect of a company's financial performance proxied by return on assets, current ratio, earnings per share and debt-to-equity ratio on stock returns.

The results of this study contribute to additional literature related to stock returns and as a reference for further research. From a practical standpoint, the results of this study can be one of the pieces of information for investors or potential investors regarding the financial performance and stock returns they will get when investing.

## LITERATURE REVIEW

### Signaling Theory

The basic theory in this study uses signaling theory which was initially developed in the economics and finance literature, to explicitly discuss evidence that parties within the corporate environment (corporate insiders consisting of officers and directors) generally have better information about the condition of the company and prospects compared to outsiders such as investors, creditors or the government. Signaling theory was first put forward by Spence (1973), which explained that the sender (owner of the information) gives a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). In other words, the company has the advantage of controlling information from outsiders who are interested in the company. Therefore, providing essential signals to reduce information asymmetry for companies and outsiders (investors), the company's annual report is one type of information used as a signal for outsiders (Ispriyahadi & Abdulah, 2021).

The relevance to this research is when the results of financial performance, such as return on assets, earnings per share, current ratio and debt to equity ratio, are in good condition; this will lead to a good perception or signal for investors to invest with the assumption that the company's financial performance A good company will provide a good stock return as well.

### Return Saham

Stock return is the profit companies, individuals, and institutions obtain from their investment policies' results. According to Tandelilin (2010), Stock return is one of the factors that motivates investors to invest and is also a reward for the courage of investors to bear the risk of an investment made. The stock return formula is as follows:

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

$$R_t = \frac{P_t - (P_{t-1})}{P_{t-1}} \times 100\%$$

Information:

- R<sub>t</sub> : Stock returns in the observation period  
P<sub>t</sub> : The closing price of the shares during the observation period  
P<sub>t-1</sub> : The closing price of the stock for the period before the observation

### Return on Asset (ROA)

Return On Assets (ROA) is one of the ratios contained in the profitability ratio, namely the ratio used to measure a company's ability to generate profits for the company. Return On Assets (ROA) is a combination of two capabilities: the ability to generate profits and the ability to produce assets. In other words, the higher the Return On Assets (ROA), the better the asset productivity to obtain net profit. ROA can be obtained by comparing net income to total assets (Januar et al., 2022).

### Current Ratio (CR)

The Current Ratio (CR) is one of the ratios contained in the liquidity ratio, which shows the relationship between the company's cash and other current assets and debt. According to Martak & Presetyo (2020), the Current Ratio (CR) is the ratio used to measure a company's ability to pay short-term obligations. The current balance can be obtained by comparing the total existing assets with total current liabilities (Melina & Steffani, 2022).

### Earnings per Share

Earnings per Share (EPS) is the ratio of earnings per share (EPS) or the book value ratio, which measures management's success in achieving profits for shareholders. This ratio shows the relationship between the amount of net profit with the share ownership of shares in investment companies. Potential investors will use the earnings per ordinary share feature to make investment decisions among the various alternatives available. EPS is obtained by comparing the total net income to the total outstanding shares (Oktaria & Arifa, 2022).

### Debt to Equity Ratio

The Debt to Equity Ratio (DER) is one of the ratios in the solvency ratio, which describes the company's ability to pay long-term obligations or its obligations if it is liquidated. The Debt to Equity Ratio (DER) is a ratio for assessing a company's debt or equity by comparing all debt, including current debt, with all equity (Nafisa & Mustofa, 2021).

## HYPOTHESES DEVELOPMENT

### The Effect of ROA on Stock Returns

Return On Assets (ROA) is the ratio of net income to total assets, which measures the return on total assets after interest and taxes, which shows the return on total assets used in the company (Fitria & Handayani, 2019). When the Return On Assets (ROA) in a company has a high ratio value, it can be concluded that the company is moving in a positive direction where it can manage its assets to generate profits from these assets. In contrast, if the value of Return On Assets (ROA) has a small matter, the company is likely unable to manage its assets to increase profitability so that it can have no effect or even have a negative impact on the measured variable. Based on the explanation of the theory above, Return On Assets (ROA) can affect stock returns based on the signaling theory that the higher the Return On Assets (ROA) value, the higher the company's ability to generate profits. Investors will be more interested in owning shares. Companies can create greater profits, and if many investors are interested in buying shares of companies that can generate high profits, then the stock price of these companies will increase. The company's stock returns will also increase (Wahyuningsih et al., 2023). This is in line with the previous research conducted by Januar et al., (2022), Wahyuningsih et al., (2023), which stated that Return On Assets (ROA) has a positive and significant effect on stock returns.

H1: Return on Assets has a positive and significant effect on Stock Returns.

### Effect of Current Ratio on Stock Return

The Current Ratio (CR) is a measure of liquidity aimed at measuring a company's ability to pay off its short-term obligations with its current assets. A high Current Ratio (CR) shows a company in a liquid condition; liquid companies are more attractive to investors. If many investors are interested in buying the company's shares, the company's stock price will increase, and the company's stock returns will also increase (Supriantikasari & Utami, 2019). On the other hand, a low Current Ratio (CR) will cause a decrease or, in other words, a negative effect on profits, leading to a decline in stock returns due to declining market prices.

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

The results of previous research that are in line with the Current Ratio (CR) affecting stock returns conducted by Melina & Stefani (2022) state that the Current Ratio (CR) has a positive and significant effect on stock returns.

H2: Current Ratio has a positive and significant effect on Stock Return

### Effect of Earning Per Share on Stock Return

Earning Per Share (EPS) is a ratio that reflects the company's ability to generate profit for each outstanding share. This ratio shows the relationship between the amount of net profit with the share ownership of shares in investment companies. Earning Per Share (EPS) shows how much profit investors receive from each share they own. Earning Per Share (EPS) can be said to have a positive effect on stock returns. If stock prices reflect the capitalization of expected profits in the future, then increased profits will increase stock prices and total market capitalization. However, suppose the stock prices cannot be obtained to provide reciprocity or profit to investors where it is likely that the value of the shares is considered too small and even investors judge that the valuation of a company's shares will not generate profits within a certain period. In that case, so many investors will release their share ownership, which will hurt a company's Earning Per Share (EPS). This explanation is in line with a signal theory where Earning Per Share (EPS) is one of the pieces of information for investors to invest; of course, a good Earning Per Share (EPS) value will increase investors' interest in putting their capital in the company. The results of previous research conducted by Oktaria & Arifa (2022) and Rahmawati & Handrian (2022) show that Earning Per Share (EPS) has a positive and significant effect on stock returns.

H3: Earning per share has a positive and significant effect on stock returns.

### The influence of Debt to Equity on Stock Return

The Debt to Equity Ratio (DER) helps know the amount of funds provided by lenders and company owners, so the smaller the ratio, the better this ratio can have a positive effect if the balance is at a small number because the company does not need to use its profits to cover the amount of debt that the company owns. So that profitability is maintained, analysts and investors often use this ratio to see how much a company's debt is compared to the equity held by the company or its shareholders. Investors are more interested in companies with a relatively small Debt to Equity Ratio (DER). This is supported by research conducted by Navison et al. (2021) which explains that the Debt to Equity Ratio has a negative and significant effect on stock returns.

H4: Debt to Equity Ratio has a negative and significant effect on stock returns

## METHOD

This study uses a type of causal research. The data used is quantitative (secondary) data obtained collectively from [www.idx.co.id](http://www.idx.co.id) and [www.finance.yahoo.com](http://www.finance.yahoo.com). This study uses Stock Return as the dependent variable. Meanwhile, the independent variables consist of Return On Assets, Current Ratio, Earning Per Share and Debt to Equity Ratio. The population in this study are pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2022 period. The population in this study amounted to 12 companies. The sampling technique is purposive sampling, namely by taking samples that have been predetermined based on the aims and objectives of the research or selected based on criteria. The criteria used to select the sample for the study are as follows (1) The company is a Pharmaceutical Sub-Sector Company listed on the Indonesia Stock Exchange (IDX) for the 2017-2022 period; (2) Companies that have gone IPO before 2017; (3) Companies that do not have a negative return on assets and earnings per share. From these criteria, eight companies were obtained as samples. The data collected and can be processed are as many as 48 financial report data.

The data collection method used in this study is collecting archival data (documents/copies) or secondary data. The analytical method used is panel data regression analysis with the help of Eviews 12 software. Statistical tests used include; (1) Descriptive statistical tests; (2) The panel data regression analysis test can be carried out with three relative approaches, namely the Common Effect model, Fixed Effect model, and Random Effect model. The regression model of this study is as follows:

$$Y = \alpha + \beta_1it + \beta_2it + \beta_3it + \beta_4it + \epsilon$$

Where:

Y = Stock Return

$\alpha$  = Constanta

$\beta_1$  = Return On Asset (ROA)

$\beta_2$  = Current Ratio (CR)

$\beta_3$  = Earning Per Share (EPS)

$\beta_4$  = Debt to Equity Ratio (DER)

i = Company

t = Tahun

$\epsilon$  = Error

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

(3) Model Selection Test with Chow Test, Hausman Test, Lagrange Multiplier Test; (4) Model Feasibility Test; (5) Partial Hypothesis Test.

### RESULT AND DISCUSSIONS

#### RESULT

**Table 1. Statistic Descriptions**

	Stock Return	Return On Assets	Current Ratio	Earning Share	Per Debt to Equity Ratio
Mean	0.052	0.112	2.793	148.84	1.069
Maximum	0.541	0.920	7.812	2596.706	4.227
Minimum	-0.494	0.000	0.897	2.201	0.090
Std. Deviation	0.195	0.149	1.4106	405.035	1.303
Observation	48	48	48	48	48

**Source:** Data Output Eviews 12. (2023)

Based on Table 1, information is obtained that the rate of stock return in sample companies averages 0.052 or 5.2%. The ratio of return on assets of pharmaceutical companies during the 2017-2022 period is around 0.112 or 11.2% for the current asset ratio of 2.793 or 27.93%. The company's earnings per share is 148.84, and the debt-to-equity ratio is 1.069 or 10.69%.

#### Panel Data Regression Analysis

**Table 2. Common Effect Model**

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	0.094	0.098	0.0962	0.342
ROA	1.704	0.507	3.358	0.001
CR	0.042	0.030	1.376	0.177
EPS	0.000	0.000	4.395	0.000
DER	0.004	0.026	0.188	0.851

**Source:** Results of data processing Eviews 12. (2023)

**Table 3. Fixed Effect Model**

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	0.740	0.211	3.500	0.001
ROA	2.671	1.232	2.168	0.038
CR	0.124	0.041	2.970	0.006
EPS	0.000	0.000	1.656	0.106
DER	-0.137	0.057	-2.394	0.023

**Source:** Results of data processing Eviews 12. (2023)

**Table 4. Random Effect**

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	0.094	0.086	1.100	0.278
ROA	1.704	0.443	3.841	0.000
CR	0.042	0.026	1.574	0.124
EPS	0.000	0.000	5.026	0.000
DER	-0.004	0.023	-0.215	0.830

**Source:** Results of data processing Eviews 12. (2023)

**Table 5. Chow-Test**

Effect Test	Statistics	d.f	Prob.
Cross-Section F	2.534	(7.28)	0.037
Cross-section Chi Square	19.662	7	0.006

**Source:** Results of data processing Eviews 12. (2023)

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

Based on the results of the Chow test in the table above, which shows the results of the chi-square cross-section probability of  $0.006 < 0.05$ , it can be concluded that the common effect is rejected so that the best model is the fixed effect. When the model used is a fixed effect, the Hausman test must be carried out. The Hausman test can be seen in Table 6 below:

**Tabel 6. Hausman-Test**

Test Summary	Chi-Sq. Statistics	Chi-Sq. d.f	Prob.
Cross-Section random	16.156	4	0.002

**Source:** Results of data processing Eviews 12. (2023)

Based on the results of the Hausman test in table 6, the cross-section probability results are  $0.002 < 0.05$ , which means that the random effect is rejected and implies that the best and selected model is the Fixed effect model.

### Model Feasibility Test

#### Analysis of the Coefficient of Determination ( $R^2$ )

**Tabel 7. Hasil Uji Koefisien Determinasi**

Model	Adjusted R Square
Model 1	0,521 → 52.1%

**Source:** Results of data processing Eviews 12. (2023)

Based on the test results of the coefficient of determination in Table 7, it is explained that the adjusted R-Square value is 0.521 or 52.1% of the independent variables in this study (return on assets, current assets, earnings per share, and debt to equity ratio) affect the dependent variable (stock returns). At the same time, the remaining 47.9% is influenced by other independent variables outside the research model.

### Hypothesis testing

**Tabel 8. Partial T-Test**

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	0.740	0.211	3.500	0.001
ROA	2.671	1.232	2.168	0.038
CR	0.124	0.041	2.970	0.006
EPS	0.000	0.000	1.656	0.106
DER	-0.137	0.057	-2.394	0.023

**Source:** Results of data processing Eviews 12. (2023)

Based on the results of the t-statistic test in Table 8 above using the Fixed Effect Model for the partial test, it can be seen that: (1) The ROA variable has a probability value of  $0.038 < 0.05$  with a coefficient value of 2.671 so it can be concluded that ROA has a positive and significant effect on returns on shares in pharmaceutical sub-sector companies (Hypothesis accepted); (2) The probability value of CR is  $0.006 < 0.05$  with a coefficient value of 0.124 so it can be concluded that CR has a positive and significant effect on stock returns (Hypothesis 2 is accepted); (3) EPS variable has a probability value of  $0.106 > 0.05$  so that hypothesis 3 is rejected or it can be interpreted that EPS has no significant effect on stock returns; (4) The DER variable has a probability value of  $0.023 < 0.05$  with a coefficient of 0.137 so it can be concluded that DER has a positive and significant effect on stock returns (hypothesis 4 is accepted).

## DISCUSSION

### Effect of Return on Assets (ROA) on Stock Returns

Based on the research results states that the variable Return On Assets (ROA) has a positive and significant effect on stock returns in Pharmaceutical Sub-Sector companies listed on the IDX in the 2017-2022 period. Return On Assets (ROA) is one of the ratios contained in the profitability ratio, which is the ratio used to measure a company's ability to generate profits for the company (Kurniawan, 2021). The higher the Return On Assets (ROA) level, the better the financial performance and the greater the resulting return. Increasing the ratio of Return On Assets (ROA) will also increase the rate of return for investors because a high Return On Assets (ROA) illustrates that the company has an excellent ability to utilize its assets to obtain maximum profit. This indicates that the returns investors receive will be high, and investors will be interested in buying these shares. However, from the processed data, it is found that the average value of Return On Assets (ROA) is minimal, which means that the company is considered unable

## **Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance**

to manage or maximize its assets properly. It can be concluded that the pharmaceutical sub-sector companies listed on the Indonesian stock exchange do not rely on their assets but instead focus on company operations such as production results. Because in this business, pharmaceutical companies produce medicines, vaccines and vitamins that can increase their share of value seen from their high average stock returns.

In line with the signaling theory, which is useful in providing information to investors and explains to investors that pharmaceutical companies do not use Return On Assets (ROA) to measure whether or not a company is good at generating profits for investors. The results of this study are in line with the results of previous studies conducted by Ramadhani & Ratnasari (2022) and Wahyuningsih et al. (2022), which stated that Return On Assets (ROA) has a positive and significant effect on stock returns.

### **Effect of Current Ratio (CR) on Stock Returns**

Based on the research results states that the Current Ratio (CR) variable has a positive and significant effect on Stock Returns in Pharmaceutical Sub-Sector companies listed on the IDX in the 2017-2022 period. A high Current Ratio (CR) value reflects that the company can pay off its current liabilities with available current assets to provide returns in the form of dividends and capital gains to investors. A low Current Ratio (CR) value will decrease the company's stock market price. Still, too high a Current Ratio (CR) is not necessarily good because, under certain conditions, it indicates a lot of idle company funds (little activity), which in turn can reduce the company's profitability. This study's results align with the results of the research by Melina & Steffani (2022), which explains that the current ratio has a positive and significant effect on firm value.

### **Effect of Earning Per Share (EPS) on Stock Return**

The research results state that the Earning Per Share (EPS) variable does not affect Stock Returns in Pharmaceutical Sub-Sector companies listed on the IDX in the 2017-2022 period. Earning Per Share (EPS) is a ratio that reflects the company's ability to generate profit for each outstanding share. The higher Earning Per Share (EPS) value indicates that the company's ability to generate net profit after tax is increasing; with the increase in net profit after tax generated by the company, the total return received by shareholders is also growing. Meanwhile, the low Earning Per Share (EPS) value indicates that the company's performance is not good in managing operational funding sources effectively to generate net profit (increase in profitability). Tests on the Earning Per Share (EPS) variable on stock returns show that the Earning Per Share (EPS) variable does not affect stock returns. The fluctuations experienced caused the company to generate net profit after tax to experience instability, with the results of research data showing that most companies have a low and consistent Earning Per Share (EPS) value for the last five years. While the average stock return has grown from year to year, even though it occasionally decreases, it still moves up the graph. Thus the low value of Earning Per Share (EPS) does not affect stock returns because stock returns continue to increase. This is in line with signal theory, where investors in this pharmaceutical sub-sector do not need to consider the information obtained from the Earning Per Share (EPS) variable because its low value cannot affect stock returns. This study's results align with previous research by Rahmadi (2020), which stated that Earning Per Share (EPS) does not affect Stock Returns.

### **The Influence of Debt to Equity Ratio (DER) on Stock return**

The research results state that the Debt to Equity Ratio (DER) variable has a negative and significant effect on Stock Returns in Pharmaceutical Sub-Sector companies listed on the IDX in the 2017-2021 period. The Debt to Equity Ratio (DER) is one of the ratios in the solvency ratio, namely the ratio of debt to equity, which measures how far a company is financed by debt. Where the results obtained in this study are significant negative explanations because the higher the Debt to Equity Ratio (DER) indicates that the business capital structure utilizes more debt which suggests the company is not doing well because the higher debt will affect the size of the available net profit for shareholders including dividends received. This also indicates that the company has a significant dependence on creditors. Meanwhile, the lower the Debt to Equity Ratio (DER) suggests that the company uses its capital rather than taking on debt, so the risk of default or financial difficulties will be lower. And what happens to the research sample shows that the Debt to Equity Ratio (DER) data shows a reasonably high value. This gives an illustration to researchers that high debt is not only positive and not always negative; if placed in a portion, these debts can become company assets indirectly where the tax burden will be reduced, but if the debt is too high, it will cause the resulting decline in profitability and in the end will undoubtedly affect prices and stock returns in the sub-sector of pharmaceutical companies. This study's results align with previous research conducted by Navison et al. (2021), which stated that the Debt to Equity Ratio (DER) has a negative and significant effect on Stock Returns.

## **CONCLUSION**

Stock return is one of the important information for investors. The invest their money for having good return. Some factors are predicted influence pharmaceutical companies in Indonesia. The results of this study indicate that Return on Assets (ROA) and



## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

Current Assets (CR) have a positive and significant effect on firm value. Earning per Share (EPS) does not affect Stock Return. Meanwhile, the Debt to Equity Ratio significantly negatively affects stock returns. This study has some limitations like, the researchers only use six-year period. So for future research can use longer period of data. Future research also can use another measurement for each variable.

### REFERENCES

- 1) Adawiyah, N. R., & Setiyawati, H. (2019). The Effect of Current Ratio, Return on Equity, And Firm Size on Stock Return (Study of Manufacturing Sector Food and Beverage in Indonesia Stock Exchange). *Scholars Bulletin*, 05(09), 513–520. <https://doi.org/10.36348/sb.2019.v05i09.004>
- 2) Alamgir, M., & Cheng, M. C. (2021). Effect of leverage on firm value and how the contextual variables affect this relationship: A case of Pakistan. *Proceedings of the International Conference on Electronic Business (ICEB)*, 21, 144–153.
- 3) ANALYSIS OF THE EFFECT OF RETURN ON ASSET, DEBT TO EQUITY RATIO, AND TOTAL ASSET TURNOVER ON. (2021). 2(1), 64–72.
- 4) Anggraini, R. D., & Wijayanto, A. (2021). The Influence of Fundamental Factors on Stock Returns with Exchange Rate as Moderation Variable. *Management Analysis Journal*, 10(3), 305–314.
- 5) Astuti, D. F., Dewi, R. R., & Fajri, R. N. (2020). Pengaruh Corporate Governance dan Sales Growth terhadap Tax Avoidance di Bursa Efek Indonesia (BEI) 2014-2018. *Ekonomis: Journal of Economics and Business*, 4(1), 210. <https://doi.org/10.33087/ekonomis.v4i1.101>
- 6) Basaria Christina Maritosa, & LastName\*, A. D. S. (2020). The Impact of Current Ratio, Debt to Equity Ratio, Return on Assets, Dividend Yield, and Market Capitalization on Stock Return (Evidence from Listed Manufacturing Companies in Indonesia Stock Exchange). *Scientific Journal of PPI-UKM*, 1–7. <https://doi.org/10.27512/sjppi-ukm/ses/a11052020>
- 7) Fitria, G. N., & Handayani, R. (2019). Tax Avoidance: Studi Empiris Pada Perusahaanmanufaktur Sektor Barang Konsumsi Di Indonesia. *Monex : Journal Research Accounting Politeknik Tegal*, 8(1), 251. <https://doi.org/10.30591/monex.v8i1.1263>
- 8) Hidayat, I., & Khotimah, K. (2022). Pengaruh Profitabilitas dan Ukuran Perusahaan terhadap Nilai Perusahaan sub sektor kimia. *Jurnal Ilmiah Akuntansi Kesatuan*, 10(1), 1–8. <https://doi.org/10.37641/jiakes.v10i1.1175>
- 9) Iskandar Zulkarnain, Nanda Sulistiyowati, & Sjukun. (2022). the Effect of Return on Equity and Debt To Equity Ratio on Stock Prices in the Company Transportation Sub Sector Listed on the Indonesia Stock Exchange for the 2015-2019 Period. *International Journal of Social Science*, 1(6), 955–966. <https://doi.org/10.53625/ijss.v1i6.1666>
- 10) Ispriyahadi, H., & Abdulah, B. (2021). Analysis of The Effect of Profitability, Leverage and Firm Size on Firm Value. *Journal of Business, Management, and Accounting*, 3(2), 64–80.
- 11) Januar, F., Prastyo, T. J., & Syaipudin, U. (2022). Effect of Financial Performance on Stock Return During Covid-19. *Jurnal Akuntansi Dan Pajak*, 23(1), 1–7. <http://jurnal.stie-aas.ac.id/index.php/jap>
- 12) Melina, & Steffani. (2022). *the Influence of Return on Equity, Current Ratio and Earning Per Share Toward Stock Price of Consumer Goods Industry Listed on the Indonesia Stock Exchange. 2019*, 366–372.
- 13) Novison et al (2021) The Effect of Debt Equity Ratio and Current Ratio on Stock *\*corresponding author: (2021). 4*, 941–956.
- 14) Novison et al. (2021).The Effect of Debt Equity Ratio and Current Ratio on Stock. *Internatioal Sustainable Competitive Advantage*.
- 15) Oktaria, E. T., & Arifa, S. N. (2022). the Effect of Return on Assets (Roa), Return on Equity (Roe) and Earnings Per Share (Eps) on Stock Prices in Food and Beverage Companies Listed on the Indonesia Stock Exchange 2016-2020. *JIM UPB (Jurnal Ilmiah Manajemen Universitas Putera Batam)*, 10(2), 171–182. <https://doi.org/10.33884/jimupb.v10i2.5567>
- 16) Prasetyo, D. W., & Hermawan, A. (2023). Profitabilitas, Ukuran Perusahaan, Dan Struktur Modal Terhadap Nilai Perusahaan. *Jesya*, 6(1), 743–751. <https://doi.org/10.36778/jesya.v6i1.1003>
- 17) Rahmawati, Y., & Hadian, H. N. (2022). The influence of Debt Equity Ratio (DER), Earning Per Share (EPS), and Price Earning Ratio (PER) on stock price. *International Journal of Financial, Accounting, and Management*, 3(4), 289–300. <https://doi.org/10.35912/ijfam.v3i4.225>
- 18) Rusdiyanto, Hidayat, W., Tjaraka, H., Septiarini, D. F., Fayanni, Y., Utari, W., Waras, Indrawati, M., Susanto, H., Tjahjo, J. D. W., Mufarokhah, N., Susetyorini, Elan, U., Samsi, N., Choiri, Syamsul, M., Widodo, M., Suyanto, H., Zainal, M., & Imanawati, Z. (2020). The effect of earning per share, debt to equity ratio and return on assets on stock prices: Case study Indonesian. *Academy of Entrepreneurship Journal*, 26(2), 1–10.
- 19) Sari, N., & Astini, R. (2020). The Effect of Current Ratio, Debt to Equity Ratio, Return on Assets, And Earning Per Share on

## Stock Return of Pharmaceutical Companies in Indonesia: In Terms of Financial Performance

Stock Price of Conventional Taxi and Bus Companies Listed In Indonesia Stock Exchange In Period of 2013-2017. *International Humanities and Applied Science Journal*, 1(1), 25. <https://doi.org/10.22441/ihaj.2020.v3i1.03>

- 20) Siregar, M. Y., & Mardiana. (2020). Effect of Quick Ratio , Total Asset Turnover , and Receivable Turnover on Return on Assets in Food and Beverages Companies Listed on the Indonesia Stock Exchange ( IDX ). *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, 5(1), 5347–5359. [www.bircu-journal.com/index.php/birci](http://www.bircu-journal.com/index.php/birci)
- 21) Sumira, S., & Prihandini, W. (2022). GENDER DIVERSITY AS THE MODERATING FACTOR IN THE INFLUENCE OF FINANCIAL FACTORS ON THE FIRM VALUE: A STUDY ON COMPANIES LISTED IN KOMPAS 100 INDEX in 2015-2019. *International Journal of Economics, Business and Accounting Research (IJEBAAR)*, 6(1), 597. <https://doi.org/10.29040/ijebar.v6i1.4711>
- 22) Tania Rahmadi, Z. (2020). the Influence of Return on Investment, Current Ratio, Debt To Equity Ratio , Earning Per Share, and Firm Size To the Dividend Pay Out Ratio in Banking Industries Listed At Indonesia Stock Exchange Period 2013-2018. *Dinasti International Journal of Digital Business Management*, 1(2), 260–276. <https://doi.org/10.31933/dijdbm.v1i2.157>
- 23) Wahyudi, D. E., T, S., & Rusydi, M. K. (2021). Determinants of Transfer Pricing Aggressiveness with the Moderation of Corporate Governance in Indonesia and Malaysia. *Journal of Economics, Business, & Accountancy Ventura*, 24(1), 23. <https://doi.org/10.14414/jebav.v24i1.2536>
- 24) Wahyuningsih, S., Wiyono, G., & Maulida, A. (2023). The Effect of Inflation, Capital Structure, and ROA on Stock Returns in Food and Beverage Companies Listed on The Indonesia Stock Exchange in 2017-2020. *Invoice Jurnal Ilmu Akutansi*, 5(1), 8–16.



There is an Open Access article, distributed under the term of the Creative Commons Attribution – Non Commercial 4.0 International (CC BY-NC 4.0 (<https://creativecommons.org/licenses/by-nc/4.0/>)), which permits remixing, adapting and building upon the work for non-commercial use, provided the original work is properly cited.