FINANCIAL RATIOS, RETURN STOCK AND FINANCIAL REPORT: DO THEY ALWAYS AFFECT EACH OTHER?

[1]*Novita Dianasari*, [2]*Henny Medyawati*, [3]*Muhammad Yunanto*
[1]*Student, Faculty of Economics, Gunadarma University, Depok, Indonesia*
[2,3] *Faculty of Economics, Gunadarma University, Depok, Indonesia*

Abstract

The purpose of this study was to analyze the financial performance of banks that go public and to analyze the effect of the stock price performance, before and after the publication of the financial statements. Samples taken in this study is 31 publicly traded banks listed on the Indonesia Stock Exchange. Data obtained from Indonesia Stock Exchange and Bank of Indonesia in the form of bank financial statement in the year 2011. The results of data processing show partially or simultaneously, Capital Adequacy Ratio (CAR), Return On Equity (ROE), Loan to Deposit Ratio (LDR) and the Net-Performing Loan (NPL) has no effect on stock returns and no difference in the average value stock prices before and after the publication of the financial statements in the Indonesia Stock Exchange.

Keywords: Financial ratio, Stock Return, Bank *Go Public*

INTRODUCTION

The financial statements of companies or banks published is one source of information that is often used by investors to make decisions. According to figures contained in the financial statements, investors can determine the performance of the company during the reporting period, compared with the prior period financial statements and the financial statements issued by other issuers. One way for the good management of the bank is to pay attention to liquidity, solvency, and profitability of the bank. Banks must be able to manage its liquidity in order to secure guarantees to pay the debts and savings account customers are required from time to time so that the bank can be trusted by the community, the bank should also be able to manage its profitability so that they can make a profit and survive in the fierce competition, and evolve to keep track of the market , which impact on the growing number of clients and investors on the bank, with high prices and stock returns and the number of investors will strengthen the solvency of the bank.

Kurniawati (2005) in his study stated that the effect of the publication of financial reports on stock prices at eight securities company on the Jakarta Stock Exchange proves that there is no significant difference in the stock price five days before and after publication, and no significant relationship between changes in ROA and ROE by changes in stock prices. Prastiyaningtyas (2010) in his study states that the CAR, NPL, ROA, LDR, NIM, and share of credit significant to bank profitability. Handoko (2008) found that there is the influence of Economic Value Added (EVA), ROE, ROA, and EPS of the company's stock price changes at companies with category LQ 45 at the Indonesia Stock Exchange. From previous research, this study will use the variable CAR, NPL, LDR, and ROE to analyze whether or not the influence of these variables on stock prices as well as analyze the effect of the publication of the financial statements to the stock price.

The purpose of this study are (1) to analyze whether there is any effect of the performance of the banks that have gone public with bank stock returns in Indonesia Stock Exchange?, (2) to analyze whether the publication of the financial statements affect the stock price at the time before and after publication in the Indonesia Stock Exchange? Financial ratios used in this study include CAR, representing capital ratio, ROE represents ability earning ratio, representing the ratio LDR liquidity, and asset quality ratios represent NPL.

THEORETICAL FRAMEWORK

Bank Indonesia has issued a regulation concerning the number 13/1/PBI/2011 Commercial Banks. Bank Soundness is the assessment conducted on the condition of the Bank and the Bank's performance risk.

Assessment of the soundness of banks replaces the previous regulation concerning No.6/10/PBI/2004 Assessment for Commercial Banks that have been in effect for almost seven years. Healthy banks can be defined as the ability of a bank to conduct normal banking operations and is able to meet all its obligations to the well in a manner in accordance with applicable banking regulations (Triandaru and Budisantoso, 2006:51). Healthy banks include the implementation of all banking activities which include: the ability to raise funds from the public, from other institutions, and from its own capital, the ability to manage the funds, the ability to channel funds to the community, the ability to meet obligations to the public, employees, stockholders, and the other applicable banking regulatory compliance.

According Jogianto (2001), event study is a study that studied the market reaction to an event (event) whose information is published as an advertisement. Event study can be used to test the information content of an announcement and can also be used to test the semi-strong form market efficiency. According to Myer (Munawir, 2004:5) are two lists of financial statements prepared by accountants at the end of the period for a company. Second list is a list of the balance sheet or financial position lists and lists of lists loss of income or profit. In recent times it has become a habit for the trusts to add a third list is a list of profits or lists of surplus which is not distributed (retained earnings). According to Kasmir (2010:7) the financial statements is a report that shows the financial condition of the company at the moment or in a given period.

The relationship between financial ratios such as stock prices are analyzed by several research follows. Lewellen (2004) show that the yield divided Predicts market returns during the period 1946-2000. Book-to-market and the earnings-price ratio predict retuns during the shorter sample 1963-2000. Kheradyar and Ibrahim (2011) investigate the role of financial ratios as empirical predictors of stock return in separate and combine sets for the period January 2000 to December 2009 in Bursa Malaysia**.** The obtain results reveal that the financial ratios are able to empirically predict stock return. Taani and Banykhaled (2011) examine the effect of accounting information on earning per share (EPS) by using five categories of financial ratios. The result show that profitability ratio (ROE), market ratio (PBV), cash flow from operation/sales and leverage ratio (DER) has significant impact on earnings per share.

Martani, Mulyono and Khairurizka (2009) finds that profitability, turnover and market ratio has significant impact to the stock return. The study uses profitability, liquidity, leverage, market ratio, size and cash flow as proxies of accounting information. Cumulative abnormal return and market adjusted return are used as stock return variables. Prastiyaningtyas (2010) in his study concluded that the CAR, NPL, ROA, LDR, NIM, and the share of credit has a significant impact on bank profitability at banks go public. Based on the results of the partial hypothesis test indicates that the variable CAR, NPL, ROA, NIM, and a significant share of credit to bank profitability. LDR variable is not significant to the profitability of banks. The results Praditasari (2009) suggests that the health of banks that go public during the period 2004-2008 was ranked 1. The conclusion of this study is the health of the company go public in the very good and the ratio of bank soundness significantly affect stock prices either partially or simultaneously. These results are consistent with research Handoko (2008), using a sample of 29 companies listed on the LQ45 period 2003 to 2005. The results showed that all variables EVA, ROE, ROA and EPS simultaneously significantly influence the stock price changes. The results of the data processing show that only partially lnEPS variables that significantly affect the stock price changes while the EVA, ROE, and ROA, does not affect the stock price changes. Kurniawati (2005) showed that there was no difference in the stock price before and after the publication of the financial statements, and no significant relationship between ROA and ROE with the stock price. Mulyana **(**2011**)** found that there was a significant liquidity to the stock price of shares in companies listed in the Index LQ45, thus proposed hypothesis was tested. It was suggested that the analyzed period should be more than three years for better results and samples should represent their respective industry types proportionally. For further empirically, researchers were expected to consider also other factors that could affect stock price movements than stocks such Liquidity Stock Split and Earning per share (EPS).

METHODOLOGY

Data collected in this study are the secondary data variable namely CAR, ROE, LDR, and NPL. Data obtained from Published Financial Statements issued by Bank Indonesia in Indonesian Banking Directory, Indonesia Stock Exchange, and Yahoo Finance. The data used is the data in 2011 and the number of banks that went public in 2011 as many as 31 banks. This paper is based on the research of Dianasari (2012). The analysis method used in this study is the method of Multiple Linear Regression analysis and Paired Sample T Test method, for analyzing the time before and after publication of the financial statements.

RESULT AND DISCUSSION

Based on data from the financial statements on 2011 for 31 Bank, the independent variables calculated are CAR ratio, ROE, and NPL LDR dependent variable and Stock Return. Then general description about the five variables will be presented with the following chart in this section. Banks with largest CAR of 31 banks examined were Bank Kesawan is 46.49%, while the smallest is the 9.4% Bank Mutiara. This suggests that the Bank Kesawan is relatively the most powerful bank capital structure and Bank Mutiara is a need to strengthen the bank's capital structure. Here is a graph about 5 banks with CAR biggest ratings for 2011.

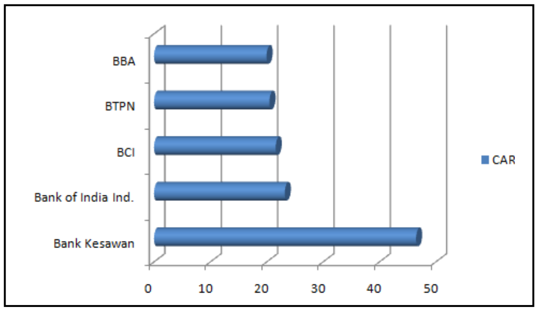

Fig. 1 Banks Ranked by value of CAR

Bank with the largest value of ROE of 31 banks surveyed in 2011 were Bank Central Asia is 33.78%, while the smallest is Pundi Bank Indonesia is -38.14%. ROE is one of the primary means investors are most commonly used in assessing a stock. This indicates that in 2011 the BCA bank is the bank with the highest level of profitability compared with 31 other banks. The opposite condition, namely Bank Pundi is consider not profitable in 2011. Here is a chart ranking five banks that have the greatest ROE for 2011.

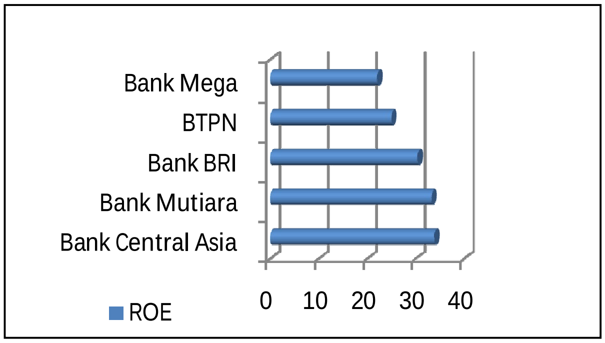

Fig. 2 Banks Ranked by the value of ROE

Bank with the largest value of LDR of 31 banks surveyed in 2011 was Bank Danamon is 99.4%, while the smallest is Capital Bank Indonesia is 44.24%. Here is a chart ranking five banks that have the greatest LDR for 2011

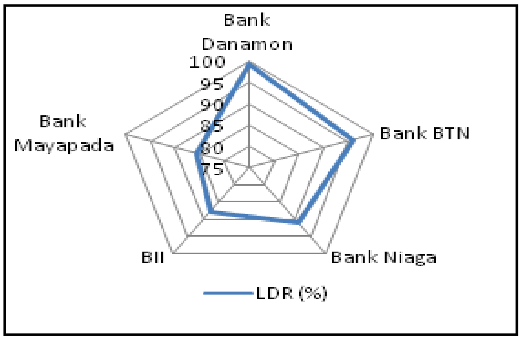

Fig. 3 Banks Ranked by the value of LDR

Bank NPLs smallest value of 31 banks surveyed in 2011 was Bank of West Java and Banten BPD is 0.09%, while the largest is the Purse Bank Indonesia is 9:12%. Here is a chart 5 banks that are rated for the smallest NPL in 2011.

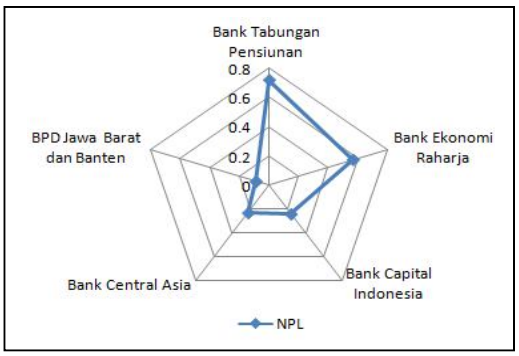

Fig. 4 Banks Ranked by the value of NPL

Prior to testing regression and correlation, classical assumption tested with the result that all variables were normally distributed. Durbin Watson value of 1.695 obtained thus can be concluded there is no autocorrelation. The test results also indicate multicollinearity and heteroscedasticity does not happen multicollinearity and heteroscedasticity. Based on the results of data processing the obtained regression equation is as follows:

$$\boxed{Y = 4{,}367 - 1{,}054\, X_1 + 0{,}002\, X_2 - 0{,}022\, X_3 + 0{,}029\, X_4}$$

The results of individual tests and multiple linear regression analysis showed that the variable CAR, ROE, and NPL LDR no significant effect on stock returns. It can be seen from the analysis of each variable as follows:

Partially, CAR does not give effect to Stock Return or in other words an increase or decrease in CAR levels will not increase or decrease the share price extended by commercial banks to go public. The Bank considers such factors as: the optimal return on capital to shareholders, maintaining a balance between the higher returns by gearing ratio as well as the security provided by a sound capital position. Banks must consider the ratio of CAR according to Bank Indonesia is the minimum requirement for commercial banks in Indonesia is 8%.

Each of the addition of one unit ROE will be followed increased rate of stock return by 0.002. The result of the increase in ROE resulted in stock returns followed a positive relationship with stock prices, meaning that when the ROE increases, the share price has also increased. The increase in ROE, the company generated net income also increased when compared with the capital that is used to generate net income. The figure shows the profitability of useful information, i.e. if the actual income is different from investor expectations of earnings, the market will react, and it is reflected in the stock price movements around earnings announcement dates.

Any reduction of the LDR unit will be followed reduced of Stock Return by rate 0.022. This suggests that there is no influence of the partial between LDR to stock return. LDR reduction that followed reduced the stock return means banks are less active in lending to the growth of the business, because banks are more concerned with investment funds in securities. The low ratio of public debt is also due to the low demand for loans as a result of unfavorable economic conditions. The ideal LDR value set by Bank Indonesia amounting to 75-80%, the number is considered sufficient to encourage economic growth and still meet the elements of bank health (risk). The ideal LDR can actually serve two purposes namely interest loans to encourage economic growth, and controlling bank risk under control. Thus, banks should put more effort to improve third-party funds and active funds in the form of loans to the public so as to improve the function of the main banking institutions as intermediary.

Each of the addition of one unit NPL will be followed by an increase of Stock Return by 0.029. The increasing of NPL will cause an increase in income to be received by the bank. The addition of lead to the dividend income is also increasing rapidly so that the growth rate of bank stock returns will increase. The test results showed that there was no effect of the partial non-performing loans to stock return. Although the results of this study stated that the NPL does not affect the stock return, the bank must consider the level of NPLs in the bank to keep a reasonable level according to Bank Indonesia ranged between 3-5% of the total credit. This meant that banks could reduce the risk posed by the credit crunch.

The constant value of 4.367 means that if all variables are constant or are 0 then the stock return still positive. Meant for investors who want to buy shares will be more profitable and can also add to its investment. Spending large-scale stock dividends could lower the market price of the stock. Similarly, the stock split will result in falling stock market prices, so that will attract investors to buy shares. Stock split will also result in a corresponding increase in the number of shares authorized, issued and outstanding followed by a proportional decline in the value per share.

The test results obtained by the F count is 0.617 to the value of p-value = 0.654> 0.05, so it can be concluded that Ho is accepted, which means no simultaneous effect between CAR, ROE, LDR, and NPL to Return Stock significant. The results demonstrate the value of R2 data processing for 0087, meaning that 8.7% of stock returns are affected by CAR, ROE, and NPL LDR. The remaining 91.3% is explained by other variables not examined in this study. Multiple correlation coefficient obtained was 0294, meaning the value of the multiple correlation coefficient is positive show no relationship between adequacy capital ratio, return on equity, loan-to-deposit ratio, and non-performing loans with stock returns, but the nature of the relationship is weak. From the test results using α = 5% two-tailed, t-count obtained for the value of p-value 0300 -1054. > 0.05 Ha rejected, meaning that there is no difference between the average stock price prior to the publication of financial statements with an average share price after the publication of the financial statements.

CONSLUSION

The variable CAR, ROE, LDR, and NPL does not affect the bank's stock price changes in Indonesia Stock Exchange either simultaneously or partially. The bank financial statement publications do not affect the stock price changes, both before and after publication in the Indonesia Stock Exchange. This can be explained by the results of Paired Sample T Test which yielded no difference between the average stock price prior to the publication of financial statements with an average current share price after the publication of the financial statements. These results are consistent with research Kurniawati (2010) and Handoko (2008), but not in line with the research Prasetyaningtyas (2010).

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