

Relationship between Return on Asset (RoA) and Stock Return (SR) for Agribusiness Go Public Company

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Abstract—This paper analyzes the relationship between Return on Asset (RoA) and Stock Return (SR). It also examines the relationship between some factors associated with SR in go public agribusiness companies. In this paper, RoA subsequently functioned as the dependent variable. The goal of the research was to determine the relationship between the RoA and SR, this research used descriptive analysis. The subjects of this research were an annual report (balance sheet and profit and loss) and historical data share price. This research indicated that there is no significant relationship between RoA and the SR in the measurement of financial performance. This research also showed that there is no significant relationship between the value of RoA and the SR.

Index Terms—Return on asset, stock return, agribusiness, go public

I. INTRODUCTION

A company's performance is one of the main factors that determine the decision to invest in stocks of companies that go public in Indonesian Stock Exchange (ISE). Performance of the company as an investment commodity has its own uniqueness since it is very sensitive to changes in the business environment. The changes could have a positive impact and vice versa. The investors who invest in stocks require accurate information for consideration in determining the choice. The financial performance of the company is one of the factors in making a choice to buy the shares [1]. The company's financial performance set forth in the annual corporate financial statements. Financial statements of a company can be a benchmark for the ability of companies related to the company's profitability [2].

In addition to the financial performance, corporate performance can also be measured by using the approach of Return on Assets (RoA) [3]. RoA is a parameter that can be used to measure the company's ability to utilize its capital stock to earn a return. The company's stock price is influenced by various factors. Changes in stock prices significantly affect the continuity of the company. Mainly, achieving short-term goals and long-term can be in the form of obtaining the maximum profit and maximize the value of the company where the share price can reflect the company's value.

The sample in this study was five agribusinesses go public companies in Indonesia. The changes in the global economy brought negative impact to the Indonesian economy. Monetary and real sector are in long enough crash [4]. The companies engaged in the real sector experiencing the raw material imports. Instead the company with more local components export experiences the benefits. The companies mainly corporate scale is engaged in the manufacturing sector, was unable to conduct its business and meet obligations to banks and other parties. It might happen as there is much burden to be borne. Under these conditions, many people began to look at domestic resource with export orientation in which it is represented by the agribusiness sector.

The natural resources in Indonesia is very supportive of agricultural activities. This sector is instrumental in economic growth and foreign exchange earnings of the State. In addition, the agricultural sector also has a strategic absorption rate and contributes to the increase of GDP in Indonesia. The agricultural sector as a raw material provider activity sustains the progress of the industry, particularly the food and beverage processing industry. For agribusiness companies, this performance is strongly influenced by the quality and quantity of agricultural products. Measuring the performance of companies investors typically use a measure of financial performance in the form of financial ratios with a wide range of ratios [3]. Measurement of the company's financial performance becomes the basis of corporate strategic planning in determining the investment model.

There were various limitations of financial ratio analysis with a wide range of ratios. Also, to examining the financial performance, it required measuring this ratio of the company that is often difficult to obtain. It required a trend analysis of each to any ratio a few years earlier. RoA is a parameter that can be used to measure the company's ability to utilize its capital stock to earn a return.

II. METHOD

The method of this research is quantitative with the regression and correlation tests [5]. This study was used to examine whether there is a significant influence of the independent variable on the dependent variable. The independent variable is usually regarded as a predictor variable since it predicts the dependent variable. The dependent variable in this study is Stock Return (SR) and defined as variable Y. The share price used is the average stock price per year. The average share price in the 12 consecutive months is obtained through a data source of a stock price on the secondary market consisting of the open and close prices. RoA in this study is symbolized as X.

III. RESULTS AND DISCUSSION

Return on Assets (RoA) and stock return were presented on Table 1 dan Table 2.

Table 1 Table Type Styles

Companies	2004	2005	2006	2007	2008
AALI	36,50	36,02	33,01	54,44	60,58
LSIP	151,35	14,37	14,40	21,20	23,84
SMAR	(1,63)	5,17	11,87	18,76	19,33
TBLA	2,17	1,28	3,86	5,64	13,31
UNSP	12,48	12,94	14,05	7,98	12,58

Table 1 shows that ROA in 2004 indicates a positive value or rate of return on good assets. The indicator is showing the size of a company's performance. The higher the value of ROA indicates better management of the company in managing assets. The more perspective a company, then the interest of investors (especially long-term investors) to own shares of the company will increase. As a result, the company's stock price also increased.

Table 2 shows that the stock return of all companies fluctuated. UNSP has the contrary stock return in the first year. In 2008, all companies indicated thenegative value of stock return.

Table 2. Stock Return

Companies	2004	2005	2006	2007	2008
AALI	3	4	8	7	(7)
LSIP	3	6	7	(7)	(8)
SMAR	3	(2)	7	6	(2)
TBLA	4	0	2	6	(7)
UNSP	(14)	3	(2)	17	(12)

Stock Return (SR) as the dependent variable (Y) can be calculated by subtracting a specific period stock prices with share price from the previous period. ROA as dependent variables (X) is often referred to as economic profitability. It is a measure of a company's ability to generate profits with all assets owned by the company. One of the profitability ratios to measure a company's ability is generating profits using existing total assets. Once the capital costs (fees used to fund assets) are excluded from the analysis, this ratio would show the ability of the capital invested in the total assets to generate profits for all investors. The higher the ROA, the higher the company's ability to generate profits, the higher the profits produced by the company that makes the investors interested in the value of the stock. This ratio is of the profits from the company and some total assets of the company.

This study showed that most companies have a positive RoA[6]. RoA showed the rate, which is an essential measurement for management performance. Thus, the higher the ROA, the better the management company in managing asset to generate a net profit for a prospective company. There were more investors, in particular, long-term investors who would be interested in having the stock and increased the level of demand for the shares that would make the stock price also increased. This study indicated that RoA has an insignificant relationship to stock return. One of the companies in year 1 had a negative ROA-value (1.63), but changed to the value of 5.7 in the second year and kept increasing in value from year 1 to year 6.

Stock return in year 1 was in positive; however, it experienced the negative in the year 2. In the next two consecutive years, a stock return was in positive. In the year 5, the stock return of the company worth negative. This study showed the ability of the capital invested as a whole has not been able to generate profits. The RoA results were useful if more than or equal to benchmark industry average which is 10%. The most of the RoA value was above 10% or above the benchmark average of the industry. This indicated that the five companies were able to utilize five owned assets optimally to generate profits due to negative RoA profit. This study indicated that the company's performance using the RoA having a significant relationship to stock return. This test was used to determine the relationship between RoA stock on five agribusinesses goes public company.

Table 3. Summary of Simple Linear Regression of Effect of ROA on Stock Return

Variable	Standardized Coefficients	Std. Error	t.	Sig.
(Constant)	2.110	1.105	1.909	.067
RoA	-.002	.032	-.072	.943

Table 3 indicates that there is no influence of RoA on Stock Return. This is indicated by the regression coefficient that was -0.002. This means that any increase in RoA by 1% was the insignificant impact on stock returns. T-test statistics obtained by -0.072 to profitability by 0.943 of more significant value to the significance level of 0.05. The influence of ROA on RS on agribusiness companies on the stock exchange is insignificant. Coefficient analysis of correlation (R) of 0.014 indicates that the relationship between RoA SR was insignificant. The coefficient correlation is in the interval 0.00 to 0.199 that is the category of fragile relationship. Thus, the hypothesis that method of RoA has a significant influence on stock returns was rejected.

This study showed that the relationship between the RoA and SR is weak. Thus, the test indicating that there is no significant relationship between ROA and SR on go public agribusiness companies. This study also found that there is no significant relationship between company performances and RoA affected by net profit. A company struggles to increase the stock price since the share price is the present value of cash flows expected to be accepted. The higher the stock price, the higher the level of prosperity of investors. ROA is a parameter that can be used to measure the company's ability to utilize its capital stock to earn a return. This ratio measures whether the company has made investments by using the entire share capital of the company for a profit and it can be said to be more efficient. The more efficient company would make a profit would attract investors interest to own shares in the company and would enhance the company's stock price.

Internal and external factors affect the company's return. Internal factors include the quality of company management, capital structure and corporate debt structure. External factors that affect the return is the fiscal and monetary policy and industrial sector growth area. Stock return includes two things: capital capital or profit / loss of investor on sale and yield or cash flow received by investor periodically (dividend or interest).

IV. CONCLUSION

Based on the data analysis, this study indicates that there is no significant relationship between financial performances measured by RoA to SR at going public agribusiness companies. This research showed that the higher the RoA would not affect the change of SR. For investors who would invest their shares in the agribusiness company should consider not only to the company's financial performance measured by RoA, but also other factors as the company performance indicators.

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