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The Effect of Financial Performance and Exchange Rate on Stock Return

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ABSTRACT

This study aims to determine how the current ratio and the exchange rate can affect stock returns. This study uses an associative quantitative approach. The population in this study are companies listed on the Indonesia Stock Exchange in the category of manufacturing companies in the consumer goods industry sector, food and beverage sub-sector taken from 2016-2020 as many as 32 companies. The sampling technique in this research is purposive sampling. The results of this study state that the current ratio does not affect stock returns, but the exchange rate affects stock returns.

Keywords: Financial Performance, Current Ratio, Exchange Rate, and Stock Return.

1. INTRODUCTION

The current capital market has experienced rapid development and is essential in mobilizing funds from people who want to invest in the capital market. In a broad sense, investment is a sacrifice made at this time to obtain a higher value in the future. Stock return is the value obtained from investment activities (Jogiyanto, 2010) in journals (Prasetioningsih et al., 2018). The expected return is in the form of dividends for stock investments and interest income for investments in debt securities. Return is the primary goal of investors to get results from investments made by investors. With a reasonably high stock return, it will be more attractive for investors to buy the stock. Therefore, to determine how much return will be obtained by investors, investors and potential investors need to predict how much return they will get.

One of the phenomena related to stock returns at PT. Sekar Bumi TBK, with the stock code (SKBM), experienced a decline in share prices in 2018 the share price of PT. Sekar Bumi TBK (SKBM) of Rp. 695, but in 2019 the share price of PT. Sekar Bumi TBK decreased to Rp 410. This decline affected stock returns to

investors with a percentage of -41%, so investors hesitated to buy their shares—the decline of stock returns, not only PT. Sekar Bumi TBK but also PT. Prasadha Aneka Niaga TBK, with this stock code (PSDN), also experienced a decline in share prices in 2018 PT. Prasadha Aneka Niaga (PSDN) of Rp. 192, but in 2019 the share price of PT. Prasadha Aneka Niaga to Rp 153. This decline affects stock returns to investors by a percentage of -20%. This decline in shares will affect the purchase of shares of PT. Prasadha Aneka Niaga will decline. As a result of this crisis, almost all of them experienced an impact on the economy, including Indonesian banking. It also impacts declining stock prices in the capital market, causing foreign investors to sell banking and non-banking shares in Indonesia (Yudistira & Kurniawati, 2021).

Current ratio at PT. Sekar Bumi TBK with stock code (SKBM) in 2018 was 1.38%, but in 2019 it decreased by 1.33% at PT. Prasadha Aneka Niaga TBK with stock code (PSDN) in 2018 was 1.93%, but in 2019 it decreased by 0.76%. The current ratio also decreases due to reduced sales and decreased company profits.



According to (Ang, 1997) (Haryana & Priantinah, 2018), two factors affect the stock return of an investment, namely internal and external factors of the company. Internal factors in this study use the company's financial ratios, namely the current ratio. The external factor to represent macroeconomic conditions is the exchange rate. The fluctuations in the exchange rate of a currency can also affect market values and local market activities. For investors, the weakening of the rupiah indicates that

Indonesia's fundamentals are weakening. It causes investors to assume that investing in stocks has a high enough risk. Risk-averse investors, of course, will choose to avoid risk, so investors will tend to sell stocks until the economy is felt to have improved. Selling action by investors will push down stock prices on the stock exchange. A declining stock price will decrease stock returns (Haryani & Priantinah, 2018).

2. LITERATURE REVIEW

According to (Brigham & Houston, 2010) (Sofiantin, 2020), a signal is "an action taken by the company to provide instructions for investors about how management views the company's prospects. This signal is information about management's actions to realize the owner's wishes. Signaling theory explains why companies want to provide financial statement information to external parties.

Stock return is the difference between the selling or current prices with the purchase price or the beginning of the period. Meanwhile, (Brigham & Houston 2012) (and Sugiharti & Wardati, 2019) state that return is the difference between the amount received and invested. Based on some of the definitions above, stock return is the rate of return on investment in the form of rewards obtained from buying and selling shares in the capital market.

According to (Jogiyanto, 2010) in (Prasentioningsih et al., 2018), there are two types of returns. The expected return is the return that investors expect to get in the future. In contrast to realized returns that have already occurred, expected returns have yet to occur. Realized return is a return that has occurred. Realized return is calculated based on historical data. Return realization is important because it is used as a measure of the company's performance.

Financial performance is the result and level of achievement of activities and decisions made by the company in a certain period in managing the company, as well as an overview of the financial condition within the company in a certain period. So, financial performance is the financial condition of the company's

performance which is interpreted in the financial statements of its performance in a certain period. Liquidity Ratio is a ratio that describes the company's ability to meet short-term obligations (debt). It means that if the company is billed, it will be able to meet the debt, especially the due debt. The form of liquidity ratio is the current ratio and quick ratio.

The leverage ratio measures the extent to which the company's assets are financed with debt. It means how much debt burden the company bears compared to its assets.

Activity Ratio Is a ratio used to measure the effectiveness of the company in using its assets. Alternatively, this ratio measures the efficiency (effectiveness) of utilizing company resources. The profitability Ratio Is a ratio to assess the company's ability to seek profit. This ratio also provides a measure of the level of management effectiveness of a company as indicated by the profit generated from sales and investment income. The point is that using this ratio shows the company's efficiency.

The growth ratio describes the company's ability to maintain its economic position during economic growth and its business sector. The valuation Ratio Is a ratio that provides a measure of management's ability to create market value for its business above investment costs.

Several macroeconomic indicators have an evident influence on economic activity. One of these indicators is currency exchange rates. The exchange rate is a price in the exchange. Likewise, with the exchange between two different currencies, the value or price will be

compared between the two currencies (Prasetioningsih et al., 2018). This comparison of values is often referred to as the exchange rate.

(Robert, 2001), (Arifin & Hadi, 2016) in the journal (Septariani, 2020) explains that the exchange rate system consists of two kinds: Fixed Exchange Rate is an exchange rate system in which the central bank, as the holder of the country's highest monetary authority, determines the domestic exchange rate against other countries which is set at a certain level regardless of supply and demand activities in the money market, namely by linking the value of a currency with gold. Free rate is a comparison of the value of one country's currency with that of another country's currency left to be determined freely by the attraction of market forces or according to supply and demand. According to (Sitanggang & Munthe, 2019), several main factors affect the domestic currency's high and low exchange rates against foreign currencies.

According to (Ma'arif & Amanah, 2017), the current ratio is used to find the liquidity value. The current ratio is obtained by comparing the value of current assets with the current liabilities of the company. The higher the current ratio value, the better the company can pay off its short-term obligations. Investors will assume the company is operating well and

covering its short-term obligations so that when the current ratio increases, the value of stock returns will also increase. This result is supported by research (Ma'arif & Amanah, 2017) which says that the current ratio affects stock returns.

H₁: The current ratio significantly affects stock returns

The exchange rate is the value of a country's currency measured by the value of one currency unit against another. If a country's economic conditions change, it is usually followed by a substantial change in the exchange rate. The increase in the rupiah exchange rate will create a better state economic condition, which is indicated by the company's ability to increase company profits. If the company's profit increases, it will give a positive signal to investors, who can increase the company's stock price. Increased economic growth will encourage an increase in demand or people's purchasing power, directly affecting investment in the capital market. With the increasing investment in the capital market, the stock price will increase, resulting in stock returns also rising. This result is supported by research (Septariani, 2020) which says that the exchange rate affects stock returns.

H₂: The exchange rate significantly affects stock returns

3. RESEARCH METHOD

This research data were conducted from manufacturing companies in the food and beverage sub-sector consumer goods industry listed on the Indonesia Stock Exchange. This study uses an associative quantitative approach with descriptive research methods. The data used in this study is secondary data. The secondary data of this study was obtained from BI and IDX for manufacturing companies in the consumer goods industry sector for the food

and beverage sub-sector for the 2016-2020 period.

3.1. Data Collection Techniques

To obtain data for the issues being investigated in this study, the authors retrieved data from the financial statements of companies listed on the Indonesia Stock Exchange, which has nine sectors, one of which is the Consumer Goods Industry, which can be downloaded at the following link: www.idx.co.id.

3.2 Operational Definitions of Variables

Table 1: Variable Measurement

Variable	Measurement
Stock Returns	$Stock\ Returns = \frac{Pt - (Pt - 1)}{Pt - 1}$

Where Pt is current stock price and Pt-1 is previous period's stock price.



Financial Performance

Exchange Rate

$$CR = \frac{\text{Current Asset}}{\text{current debt}}$$

$$\text{Middle Rate} = \frac{BR + SR}{2}$$

Where BR is Buying Rate and SR is Selling Rate

3.2. Sample Collection Techniques

The population in this study are companies listed on the Indonesia Stock Exchange in the category of manufacturing companies in the consumer goods industry sector, food and beverage sub-sector taken from 2016-2020, which are 32 companies.

The sampling technique in this study is purposive sampling, which is a sampling technique with specific considerations (Sugiyono, 2009) (Valentika & Nursyirwan, 2020). The criteria used can be based on consideration of certain limitations, namely:

Table 2: Sample Selection

Description	No Of Companies
Listed on the Indonesia Stock Exchange (IDX) for 2016-2020	32
Companies that do not publish and complete financial reports.	(14)
Companies that experienced loss during 2016-2020	(5)
Companies that have a current ratio of 1% or more	(1)
Number of research samples	12

Total sample data for research five years 60

3.3. Data Analysis Techniques

The data analysis technique is the most decisive step of research because data analysis concludes the research results. The test was carried out using the Eviews 9 program. Eviews 9 is a Windows-based statistical analysis program and communication tool for time series and time series electronics.

These multiple regression analysis methods were carried out on the model proposed by research using EViews Software version 10 to predict the relationship between the independent and dependent variables. The multiple regression analysis equations are:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

- Y = Stock Returns
- α = Constant
- β_1 = Coefficients
- X1 = Financial Performance
- X2 = Exchange Rate
- e = error

4. RESULTS AND DISCUSSIONS

4.1. Results

Table 3: Statistic Descriptive

Variables	Mean	Standard Deviation	Min	Median	Max
Stock Returns	0.051883	0.208213	-0.410100	0.055000	0.531400
Financial Performance	2.954788	2.146243	1.001400	2.322300	8.637800
Exchange Rate	13,949.49	511.1956	13,329.84	14,130.59	14,622.34

Source: Proceed by E-views, 2022

Based on the results in Table 3, it is shown that the observations on manufacturing companies in the consumer goods industry sector of the food and beverage sub-sector listed on the Indonesia Stock Exchange for the 2016-2020 period in this study amounted to 40 data. The Stock Return variable has a minimum value of -0.410100 and a maximum value of 0.531400. These results indicate that the stock returns of the companies sampled in this study

range from -0.410100 to 0.531400 with an average value (mean) of 0.051883 with a standard deviation of 0.208213.

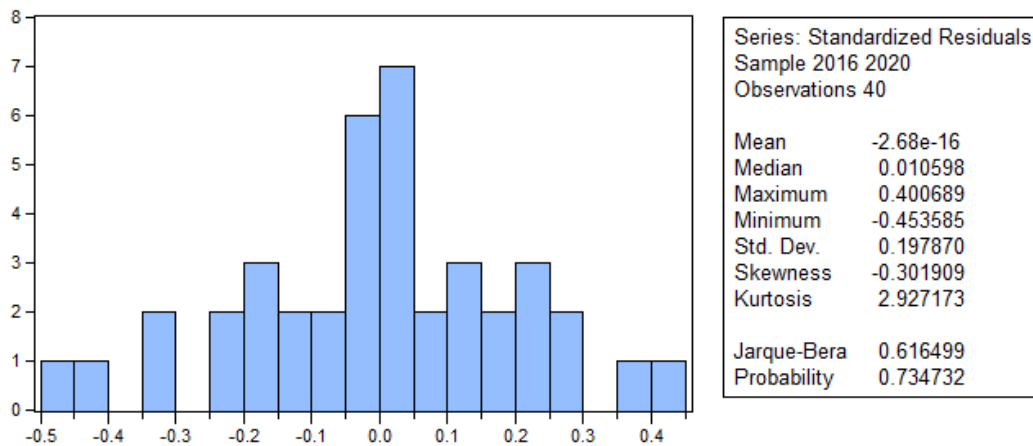
The Financial Performance Variable (Current Ratio) has a minimum value of 1.001400 and a maximum of 8.637800. These results indicate that the Financial Performance (Current Ratio) of the companies that are the sample of this study ranges from 1.001400 to 8.637800 with an average value (mean) of

2.954788 with a standard deviation of 2.146243.

The Exchange Rate variable has a minimum value of 13,329.84 and a maximum value of 14,622.34. These results indicate that the

exchange rate for this research sample ranges from 13,329.84 to 14,622.34, with an average value (mean) of 13.949.49 at a standard deviation of 511.1956.

Figure 1: Normality Test



Source: Proceed by E-views, 2022

Based on the results in Figure 2 above, the Jarque-Bera probability > 0.05 is 0.734732, it

can be concluded that the residuals are normally distributed.

Table 4: Multicollinearity test

Variables	Financial Performance	Exchange Rate
Financial Performance	1.000000	
Exchange Rate	-0.011195	1.000000

Source: Proceed by E-views, 2022

Based on the results in table 6 above, the correlation value < 0.90 is -0.011195, it can be

concluded that the data does not occur multicollinearity.

Table 5: Regression test

Variables	Coefficient	Sig.
Financial Performance	-0.000186	0.9903
Exchange Rate	-0.000127	0.0043
R-square	0.106876	
Prob(F-statistic)	0.021819	
Observations	60	

Source: Proceed by E-views, 2022

4.2. Discussion

The research results show that the Financial Performance variable (Current Ratio) partially does not affect stock returns. It can be seen from the probability value of 0.8480 greater than 0.05 (0.8480 > 0.05). So financial performance has no partial effect on stock returns.

It shows that investors will get a lower return if the company's ability to meet its short-term obligations is lower than others. It also shows that investors do not see the CR owned by a company in making investment decisions. The ability of a company to meet short-term obligations is not a priority for investors. Investors also ignore the company's cash,



accounts receivable, and inventory management before investing in the capital market.

The results of research conducted by researchers show that partially the Exchange Rate variable affects stock returns. It can be seen from the probability value of 0.0096, which is less than 0.05 ($0.0096 < 0.05$). So the exchange rate has a partial effect on stock returns.

The exchange rate significantly influences stock returns because the solid or weak

exchange rate of the rupiah against foreign currencies often causes the rise and fall of stock prices on the stock exchange. Increasing the rupiah exchange rate (exchange rate) will also increase economic growth through international trade, as evidenced by people's welfare. Increased economic growth will encourage an increase in demand or people's purchasing power, directly affecting investment in the capital market. With increasing investment in the capital market, stock prices will increase, resulting in rising stock returns.

5. CONCLUSIONS

Based on research and data analysis regarding Financial Performance and Exchange Rates on Stock Returns in manufacturing companies in the food and beverage sub-sector consumer goods industry listed on the

Indonesia Stock Exchange (IDX) for the 2016-2020 period, the conclusion is financial performance does not affect stock returns and the exchange rate affects stock returns.

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