

Literature Review on the Effect of Debt Policy on Stock Returns With Profitability as a Mediation Variable in Telecommunications Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

This study aims to collect and analyze published articles on the effect of debt policy and profitability on stock returns in telecommunications companies. The research design was a literature review. Financial reports published in the last ten years that appear in companies and finance that are academically recognized have been reviewed in this study. Then the results show that financial performance is expected to increase stock returns, which can be measured by increasing stock investment. So debt policy and profitability have a significant effect on stock returns.

Keywords: *Stock Return, Debt Policy and Profitability*

1. INTRODUCTION

In this day and age the role of the internet has been very important in human life. In all corners of the world regardless of status, be it children, adolescents, parents, must have realized how important the internet is in supporting daily activities. In fact, almost all socio-cultural activities, business have been diverted by utilizing the internet network. All because we realize that the internet network is very helpful and supports activities.

The above phenomenon shows that the telecommunications sector is growing rapidly in line with the increasing number of internet users. PT. Telekomunikasi Indonesia is the holder of the monopoly rights for domestic

telecommunications in Indonesia, for local calls up to 2001 and long-distance calls up to 2006. Meanwhile, for international connection services currently also served by PT. Telecommunication Indonesia.

In general, customers or users of internet services are very few or even do not have sufficiently strong bargaining power for telecommunications services or international direct dial services in Indonesia because customers do not have the choice of mobile telecommunications services, this service choice is sufficient to have alternative services however, it is only limited to certain choices and cannot provide maximum service. Based on the description and data above, it can be seen

that the potential for telecommunications services business is very potential and continues to increase from year to year, in Indonesia there are still many people who have not enjoyed internet services and others, this is of course a potential customer that can still be reached.

The telecommunications business is a dynamic and attractive business, multi-faceted and greatly influences the life order of society today. However, from the business side, entering this industry requires a lot of capital, this is due to the high cost and high technology used and the cost of building this network is not small. So that those who can enter this industry are entrepreneurs with large capital or giant companies who have qualified resources. Therefore there are very few opportunities for new businessmen to be able to play in this industry, because of the many barriers to entry, which are created so as not to disturb and undermine existing players.

Every company was founded with the aim of making the owner prosperous by getting a profit, increasing sales and increasing company value. If the value of the company is high, the company will provide and increase the wealth of the owners of capital. Choosing the right investment will give investors an idea that the company is the right place to invest for investors, which in turn will help increase the value of a company. Then, if the company develops well, the value of the company will increase, which in turn, will increase the value of the investment in the company and make the stock price increase and increase the value of the shares. "When investors buy shares, they are buying the prospect of the company. If the company's future improves, the share price will increase." (Kurniawan, 2009: 4).

In investing, investors must have the intent and purpose, namely to get the desired return. In this case, Return can be divided into two, namely dividends and capital gains. Some investors want profits in the long run, namely by obtaining dividends, which means that these investors do not really care about the rising / falling share prices that occur in the capital market, but they are more likely to seek information about the company's financial

statements. However, there are also many investors who want to get profits in the short term, namely by obtaining capital gains or the difference between the selling price and the purchase price, investors who aim to benefit from the difference between the purchase price and the selling price tend to see the development of the rising / falling share prices in the capital market. Of course, investors will buy stocks or securities when the price is cheap and will sell stocks or securities when the price has gone up and exceeds the purchase price. Information is one that is needed by investors, namely information on quarterly financial reports or annual financial reports. From this financial report, investors can find out the extent to which the development of the company's performance in running the business and the ability of company management to maximize company performance efficiently and effectively as well as the influence of external influences, namely economic, political, financial and other factors. Rasmin, 2007).

According to Brigham and Houston (2013), there are five financial ratios that can be used in analyzing stock prices, namely liquidity ratios, debt management ratios, profitability ratios, asset management ratios, and market value ratios. However, this study only focuses on three dominant factors that researchers believe affect the value of stock returns such as Return on Assets (ROA), Debt to Equity Ratio (DER), Earning per Share (EPS).

1.1. Stock Returns

According to Tandelilin (2010: 102), Return is the rate of return obtained over time and the risk of investment that has been made. The return component consists of capital gain (loss), which can be interpreted as the gain or loss from the difference in the sale value of the shares compared to the purchase price of the shares and dividends which are the income received by investors periodically. The size of the dividends received by investors is determined in the General Meeting of Shareholders (GMS). There are several factors that can have an influence on Stock Return, namely those that are macroeconomic and microeconomic in nature. 1) Macroeconomic factors, namely events and conditions that are

outside the company, such as: (a) Inflation rate, interest rates, exchange rates, economic growth rates, fuel prices on international markets, regional stock price indexes, (b) Non-Economic Macro Factors: Government political policies, social conditions, political events, 2) Micro-economic factors, namely the influence that comes from within the company. Information obtained from within the company in the form of financial information, non-financial information.

Then what affects the stock return is the debt policy (DER). According to Dhamastuti (2004) in Utami (2009), the existence of Debt to Equity Ratio is obtained from total debt compared to own capital. Equity capital consists of various types of shares (common stock and preferred stock), reserves, and retained earnings. Based on the existence of DER, if DER increases, it indicates that the company's performance is getting worse. A high DER indicates that the capital structure is more funds financed by loans so that the company's dependence on creditors will increase, so that if the company earns an operating profit, it will be absorbed to pay off debts and ultimately the profit distributed to shareholders will be smaller, which results in investors being reluctant to buy shares. the company, so that the company value will decrease. Debt policy greatly influences changes in firm value. The greater the amount of debt, the higher the share price, but on the one hand the increase in debt will result in a decrease in the value of this company because

the benefits obtained from using debt are smaller than the costs incurred.

A healthy and stable financial condition is an absolute and important requirement for a company. This kind of thing certainly cannot be separated from the observations of investors in investing their capital. To find out this, we can see it from the financial side, namely from the existing financial ratios, including the Debt to Equity Ratio (DER) and Return on Equity (ROE). Therefore, the researcher is interested in knowing whether the debt policies set by the telecommunication companies listed on the Indonesia Stock Exchange have implemented the appropriate policies or not.

Return On Equity (ROE) is a ratio that shows the extent to which a company manages its own capital appropriately and measures the level of return on capital that has been invested by investors."(Sawir, A. 2009:20). Based on the above statement, it can be interpreted that if the Return On Equity has a low value, it indicates and illustrates that the company is not good. This will have an impact on decreasing the rate of return desired by shareholders, so to fulfill the wishes of shareholders the company must make a return on capital according to maturity so that it will have a positive impact, namely that the ROE value is not low. "ROE" is a tool used to assess the ability of capital itself so as to generate profits for all shareholders, both common stock and preferred stock."(Sujarweni, W.V. 2017:65).

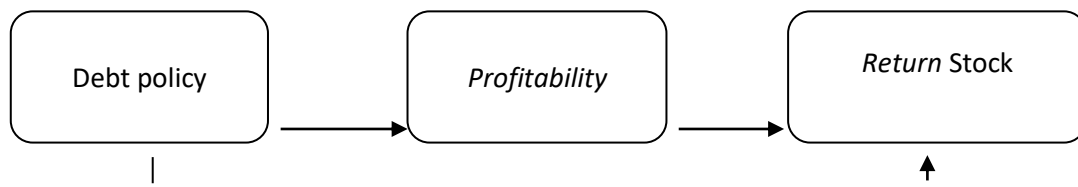


Figure 1: Conceptual Framework

The method used in this literature study adopts the Library Research review. The author uses descriptive quantitative research. The data

used is secondary data that is quantitative in nature about the annual financial statements and the closing price of each company. The data

used in this study is data in the form of numbers consisting of annual financial report data, stock returns of telecommunications companies for the period 2009-2018 which are listed on the Indonesia Stock Exchange.

The data used in this study is the 2009-2018 research period. The data source in this study comes from secondary data, namely data in the form of documents and written data relating to the object of research published on the Indonesia Stock Exchange (IDX). Financial reports for the 2009-2018 financial year are used to assess the company's financial performance and its effect on stock returns, as well as data accessed from the ICMD (Indonesian Capital Market Directory) and the Jakarta Stock Exchange (JSX) Monthly Statistic and the official website of the IDX www.idx.co.id.

1.2. Hypothesis 1. Effect of Debt Policy on Profitability in Telecommunication Companies Listed on the Indonesia Stock Exchange 2009-2018

Based on the test results, it can be seen that the debt policy has a significant effect on the profitability of the telecommunications companies listed on the Indonesia Stock Exchange for the period 2009-2018. Testing the first hypothesis by using the debt policy variable, the path coefficient is negative at 0.895 and the t-statistic value is $13.877 > t$ table is 1.677 with a probability of 0.000. In the testing phase, an error rate of 0.05 was used. The results obtained show that the probability value is $0,000 < \alpha 0.05$, so the decision is H_a accepted and H_0 rejected, so it can be concluded that debt policy has a great effect on the profitability of telecommunications companies listed on the Indonesia Stock Exchange 2009-2018 period. The negative meaning is that if the company's debt policy increases, the company's profitability will decrease by 0.895.

The results of testing the first hypothesis found that debt policy has a significant effect on profitability of telecommunications companies listed on the Indonesia Stock Exchange 2009-2018 period. The results obtained show that the first hypothesis can be proven.

1.3. Hypothesis 2. Effect of Profitability on Stock Returns in Telecommunications Companies Listed

on the Indonesia Stock Exchange 2009-2018

Based on the test results, it can be seen that profitability has a significant effect on stock returns in telecommunications companies listed on the Indonesia Stock Exchange for the 2009-2018 period. Testing the second hypothesis by using the profitability variable obtained a path coefficient value that is positive at 0.407 and a t-statistic value of $2.067 > t$ table of 1.677 with a probability of 0.044. In the testing phase, an error rate of 0.05 was used. The results obtained indicate that the probability value is 0.044 $< \alpha 0.05$, so the decision is H_a accepted and H_0 rejected, so it can be concluded that profitability has a lot of influence on stock returns in Telecommunication Companies Listed on the Indonesia Stock Exchange 2009-2018 period. The positive meaning is that if the company's profitability increases, the company's stock return will increase by 0.407.

The results of testing the second hypothesis found that profitability greatly influenced stock returns in telecommunications companies listed on the Indonesia Stock Exchange for the 2009-2018 period. The results obtained show that the second hypothesis can be proven. Based on the findings, the company generates profit with its own capital which will have a positive effect on the company and shareholders. These positive impacts include high profit results obtained with own capital which will increase the demand for company shares and the company's share price will also be higher. When the stock price increases, the return you get will also increase. High Return on Equity also shows that the company does not depend on the use of external funds or what can be called creditors and high profitability shows that the company has large internal funds or capital to generate high profits, so that ROE has a positive effect on stock returns.

1.4. Hypothesis 3. The Effect of Debt Policy on Stock Returns in Telecommunications Companies Listed on the Indonesia Stock Exchange 2009-2018

Based on the test results, it can be seen that the debt policy has a significant effect on stock returns in telecommunications companies listed on the Indonesia Stock Exchange for the 2009-2018 period. Testing the first hypothesis by

using the variable debt policy obtained a path coefficient value that is negative of 0.414 and a t-statistic value of 2.102 > t table of 1.677 with a probability of 0.041. In the testing phase, an error rate of 0.05 was used. The results obtained indicate that the probability value is 0.041 < α 0.05, so the decision is H_a accepted and H_0 rejected, so it can be concluded that debt policy has a strong influence on Stock Returns in Telecommunications Companies Listed on the Indonesia Stock Exchange 2009-2018 Period. The negative meaning is that if the company's debt policy increases, the company's stock return will decrease by 0.414.

1.5. Hypothesis 4. The Effect of Debt Policy Has an Influence on Stock Returns with Profitability as a Mediation Variable in Telecommunications Companies Listed on the Indonesia Stock Exchange 2009-2018

Based on the test results, it can be seen that debt policy has a significant effect on stock returns through profitability as a mediator for Telecommunications Companies Listed on the Indonesia Stock Exchange for the 2009-2018 Period. Testing the fourth hypothesis using the variable debt policy has a significant effect on stock returns through profitability as a mediator. Based on the Sobel test in this study, it shows that the tabulation results $t = 52.10 > 1.677$ with a significant level of $0.044 < 0.005$, thus it can be said that the mediating variable is policy. debt has a significant and positive influence mediating profitability on stock returns.

2. CONCLUSION

This study aims to reveal the effect of debt policy on stock returns with profitability as a mediating variable in telecommunications companies listed on the Indonesia Stock Exchange. Based on the results of research and discussion, the following conclusions can be drawn:

1. There is a significant negative effect between debt policy on profitability.
2. There is a significant positive influence between profitability on stock returns.
3. There is a significant negative effect

between debt policy on stock returns.

4. There is a significant and negative influence between debt policy on stock returns through profitability as a mediator.

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