Financial Performance, Macroeconomic Factors and Stock Return

(Empirical Studies on Banking Companies Listed in the SRI-Kehati Index)

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***Abstract*— The objective of this research is to analyze the influence of Capital Adequacy Ratio, Non Performing Loan, Operating Expense to Operating Income, Net Interest Margin, Loan to Deposit Ratio, Economic Growth, Inflation Rate, Interest Rate and Exchange Rate to Stock Return of banking companies on SRI-Kehati Index during the period 2009-2013.**

Historical data was taken from Indonesia Financial Statistic, Indonesia Stock Exchange, Statistic Center Bureau, Bank of Indonesia monthly report and Indonesia Capital Market Directory. The number of population for this research is 35 companies and the number of sample that examined after passed the purposive sampling phase is 7 companies. Analytical technique for this research is Dynamic Panel Data, with two alternate that is balanced panel and unbalanced panel.

The results show that Capital Adequacy Ratio, Net Interest Margin, Interest Rate and Economic Growth have a positive and significant influence to Stock Return, on the other hand Non Performing Loan, Operating Expense to Operating Income, Inflation Rate and Exchange Rate have a negative and significant influence to Stock Return on banking companies.

Keywords—Financial Performance; Macroeconomics Factors; Stock Return; Dynamic Panel Data.

I. RESEARCH BACKGROUND

The global financial crisis in early 2008 triggered by the subprime mortgage crisis in the United States causing companies subprime mortgage lender insolvent. The climax is on Monday, 28 September 2008 one of the leading financial institutions in the United States, namely Lehman Brothers declared bankruptcy. The bankruptcy news immediately spread throughout the world, without exception of Indonesia.

At the time of the crisis, countries that have never been exposed to the financial crisis can not avoid the transmission, such as the Netherlands, France, Germany, Singapore, and of course, the impact is felt throughout the world, including developing countries such as Indonesia. Even today there are indications of an economic crisis caused by the crisis in Europe (2011), primarily Greece crisis and penetrated the Middle East region, it is caused by the political turmoil in the Middle East.

The crisis events also occur in the form of financial difficulties, panic banking crisis or a systemic banking crisis, stock market crash, the bursting of financial bubbles the collapse of the currency, balance of payments difficulties, failure of repayment of government debt, or a combination of two or more events . The crisis affects the performance of the companies listed on the Exchange, so that could also affect the returns received by investors. This can be seen in the decline of the stock market and financial market.

The direct effect of the global financial crisis on the Indonesian economy is: in the exchange rate, the exchange rate in early 2008 persist at Rp 9,000, -, began to look to fluctuate in mid-September 2008. The climax on December 28, 2008 the exchange rate exceeded USD 12,650 per U.S. dollar, and today reoccur in the weakening exchange rate at Rp 11,423. (BI.go.id//Sept 16th, 2013). Rupiah volatility can be seen in Figure 1 below:

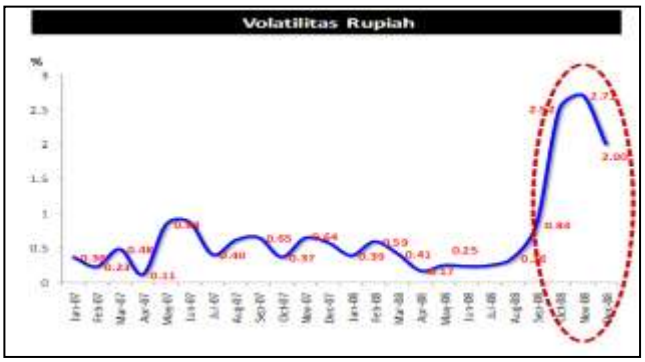

FIGURE 1
Volatility of Rupiah
Source: Bloomberg.com

The situation is of course making companies that rely on imported raw materials into a panic.The decrease in the value of the rupiah will have implications for the rise in prices of goods that will eventually lead to inflation.

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Another influence on the performance index in Indonesia Stock Exchange. Foreign ownership still dominates stake in the Indonesian Stock Exchange (IDX), inflict Indonesian stock market is vulnerable to the global financial situation. Many investors who invest their funds in the Indonesia Stock Exchange (IDX), a sudden large losses, the average of their assets lose up to 80%. (Bank Indonesia, 2010).

Performance of Jakarta Composite Index (IHSG) on the Stock Exchange on the date of October 8, 2008 corrected to 10.38%, which makes the market authority closed the trading of securities and derivatives for two days. This step was taken to protect investors from losses even more. These conditions result in reduced public confidence in the stock market in Indonesia. This phenomenon resulted in the decline in investor interest in stock trading. Consequences that occurred stock price will decline. IHSG movement can be seen in Figure 2 below:

FIGURE 2
The movement of IHSG
Source: Bloomberg.com

Based on Figure 2 above can be explained that the IHSG in early 2008 was at 2750 and significantly decreased to the lowest level at the end of 2008 stood at 1111.39. Because IHSG is an indicator of the tendency of the market reaction to stock trading session in the stock market, then a significant drop in the stock index will result in a sell-off to avoid a loss or take profit.

The stock price is often considered by investors in making investment decisions. Stock prices tend to rise in the short term will give the stock return in the form of capital gains, whereas in the long term means that the improvement in the financial performance of the company so as to allow investors to earn dividends. Instead stock prices tend to decline in the short term means that the investor will incur a loss (capital loss), whereas in the long term showed worsening financial performance of companies that investors suffered losses by not obtaining dividends.

In determining the value of stock investors need to pay attention to dividends and the expected earnings of the company in the future. The amount of the dividend and the expected earnings of a company will depend on the company's profit outlook. In stock valuation analysis, investors can perform fundamental analysis and technical analysis, fundamental analysis to assess the prospects of the company include the analysis of macro-economic, industry analysis and company analysis.

Macro fundamentals in terms of capital market analysis referred to state the fundamental factors, these factors are uncontrollable and therefore can not be controlled company. Macro fundamental factors include the following factors: (1) economic, (2) social, cultural, demographic and environment, (3) political power, government, and laws, (4) technology, and (5) competition (David, 2003) . In this study, the authors restrict the fundamental macroeconomic factors with indicators of inflation, interest rate, exchange rate, and economic growth. Data growth macro economic indicators; inflation, interest rates, exchange rates and economic growth can be seen in the following table:

TABLE 1.
Development of Indonesia's Macroeconomic Indicators
Year 2009-2013

Indicator	2009	2010	2011	2012	2013
Inflation (%)	2.78	6.96	3.79	4.30	5.00
BI Rate (%)	6.50	6.50	6.00	5.75	7.50
Exchange Rate (U.S. $)	9,400	8,991	9,068	9,670	12,170
Economic Growth (%)	4.63	6.20	6.5	6.2	5.8

Sources: BPS, BI, (data processing)

Based on Table 1 above can be explained that the price reduction BBM the end of 2008 the country has lowered the rate of inflation to 2.78 percent in 2009. Similarly, the BI rate, by looking at the inflation rate of 2.78 percent BI rate also fell to 6.5 percent in 2009 and lasted until 2010.

Table above also shows the development of Indonesia's economic growth during the 2009 slump. The impact of the global financial crisis on the Indonesian economy began to be felt in the fourth quarter of 2008, where economic growth fourth quarter 2008 decreased by minus 3.6 percent compared to the third quarter of 2008 due to lower growth in exports of goods and services.

The macroeconomic fundamentals have a tendency to affect the stock market, either directly or indirectly, in which these factors will be responded to directly by the capital markets. This is in line with the opinion of the Tandelilin Siegel (2010) which explains the strong relationship between stock prices and macroeconomic performance, and find that the stock price changes always occur before the economy changes.

According to Crockett (1997) in Nezky financial stability is closely related to the health of an economy. The more healthy financial sector in a country, the more healthy the economy as well, and vice versa. Thus the development of the financial sector, including capital markets, is one of the indicators that need to be considered to maintain the health or stability of the economy. Price movements of stocks, bonds, and so on in the stock market of a country due to investors' perception of the condition of the capital markets. This perception will ultimately affect investment coming into the

country, thus affecting the economic conditions of the country concerned.

Fundamental factor in the analysis of micro capital market is often referred to as the company's fundamentals, these factors are controllable so that it can be controlled company. Micro fundamentals can be grouped within a factor of company policy and company performance factor. The concept of a fundamental approach using the approach of the company's internal financial reports, financial reports are very useful for investors to determine the best investment decisions and profitable, investors can compare the intrinsic value of the company's stock than the stock market price of the company concerned.

In this study used a proxy variable for each bank's performance. Such proxy common, as found in the study Bogini et al. (2001), Bart et al. (2002), and Hays et al. (2010). In this study the authors ratios used as a proxy of bank performance variables include aspects of capital (Capital Adequacy Ratio/CAR), aspects of the quality of assets (Non-Performing Loans/NPL), management (Operating Expenses to Operating Income/BOPO), aspect profitability (Net Interest Margin/NIM) and aspects of liquidity (Loan to Deposit Ratio/LDR).

Selection of SRI Kehati group as the sample is because this Index established as an additional investment guideline for investors by establishing a benchmark on stocks price of Listed Companies with excellent practices on supporting their sustainability through methods that concern about the environment, social and good corporate governance. The new Index is expected to enhance the exposure on Listed Companies that have performed their environmental and social responsibilities as well as good corporate governance.

The purpose of this study was to analyze the influence of fundamental factors which consist of; CAR, NPL, BOPO, NIM, LDR, inflation (INF), exchange rate (IR), exchange rate (ER), and Economic Growth (GDP) to stock Return in the SRI Kehati group listed in Indonesia Stock Exchange 2009-2013 period either individually (partial) or jointly (simultaneously).

II. LITERATURE REVIEW

2.1 Arbitrage Pricing Theory-Multi Factors Model

Arbitrage Pricing Theory (APT) is a theory of the relationship between risk and return are derived from the absence of arbitrage opportunities in the capital markets. APT was formed in the hope of closing the weakness Capital Assets Pricing Model (CAPM), which submits only one risk factor to take into account the existing volatility in individual securities or a portfolio of securities.

Multi Factors Model are developed concerning to the concept of Arbitrage Pricing Theory (APT), based on the assumption that various economic factors, either directly or indirectly, effect on stock returns. According to Amenc (2003), multi-factors model can be distinguished explicitly factor model with macroeconomic variables (Roll and Ross, 1980) and a model with firm-specific attribute's factor (Fama and French, 1996) (Charthart, 1997). The basic model of the APT are as follows:

$$R_i = E(R_i) + b_{i1}\delta_1 + b_{i2}\delta_2 + \cdots + b_{ik}\delta_k + \varepsilon_i \qquad \ldots(1)$$

Where:

R_i = actual return of assets during the period i, i = 1,2,3, ..., n

$E(R_i)$ = expected return for asset i if all risk factors had probability equal to zero.

b_{ij} = i asset return response to the movement of risk factor j.

δ_i = number of factors or indices in common with the average zero affecting return on all assets.

ε_i = random error

n = number of assets

Multi-factor analysis model as described above, the valuation of common stock securities known as fundamental analysis, Tjiptono (2006) suggests that fundamental analysis is one way of doing stock research by studying or observing various indicators related to macroeconomic conditions and industry conditions, including a company's various financial indicators and corporate management. Fundamental analysis aims to evaluate or to project a company's value. The value of a stock can be undervalued or overvalued position. The undervalued stock when the stock price is less than the market price or the fair value of the stock is said to be overvalued, and vice versa if the stock price is greater than the market price or fair value should be.

In general, fundamental analysis involves many variables the data is important enough to be addressed;

A. Capital Adequacy Ratio (CAR)

This ratio relates to the provision of equity capital required to cover the risk of possible losses arising from investments in productive assets that contain risks, and to finance investment in fixed assets and investments. CAR is a ratio that shows how much total bank assets that contain risks (credit, investments, securities, claims on other banks) who co-financed from its own capital in addition to obtaining funds from sources outside the bank, such as public funds, loan (debt) and others. In other words CAR is the ratio of performance to measure the adequacy of bank capital owned banks to support the assets that contain or produce a risk, such as loans (Dendawijaya, 2001).

CAR shows the extent of the decline in bank assets can still be covered by the bank equity available. The higher the CAR, the better condition of a bank (part again and Wilyanto, 2003). The greater this ratio, the bank's health will be better because it means that the capital owned bank is able to cover losses arising from investments in productive assets that contain risks, and can be used to finance investment in fixed assets and investments.

B. Non Performing Loan (NPL)

The level of bank business continuity is closely related to its productive assets, therefore the bank management is demanded to be able to monitor and analyze the quality of its earning assets. The quality of productive assets showed asset quality with respect to the credit risk faced by banks as a result of lending and investment bank funds. Productive asset quality assessed include fund investment in rupiah and foreign currency, in the form of loans and securities (Siamat, 2005).

Each bank fund investment in productive assets quality assessed by determining the level of kolektibilitasnya. Collectibility can be defined as a state of repayment of principal, interest or principal installment loans by customers as well as the possibility of readmission rate funds invested in securities or other plantings. While the degree of collectibility can be divided into four levels, namely whether the current, substandard, doubtful, or jammed. The distinction is made in anticipation of a loss caused by the presence of unpaid credit or credit problems. Credit risk accepted by the bank is one of the bank's business risk, resulting from nonpayment not back loans granted by the bank to the debtor. Therefore, the ability of credit management is required by the bank concerned (Sinungan, 2000).

NPL demonstrate the ability of bank management in managing non-performing loans given the bank. NPL reflects the credit risk, the smaller the smaller NPL also credit risk borne by the bank. Thus, if the condition of a bank's NPL high it will increase the cost, both provisioning costs of productive assets and other costs, so the potential for bank losses. The higher this ratio the more worse credit quality of banks that caused the greater number of non-performing loans and the possibility of troubled banks in the greater condition. Credit in this case are loans granted to third parties does not include loans to other banks. Non-performing loans are loans classified as substandard, doubtful and loss.

C. Operating Expense to Operating Income (BOPO)

BOPO ratio is often called the efficiency ratio is used to measure the ability of bank management in controlling operating expenses to operating income. Given the bank's main activities in principle is to act as an intermediary, namely collecting and distributing funds (eg public funds), then the bank's expenses and operating income was dominated by interest expense and interest income (Dendawijaya, 2005).

BOPO is measured from the ratio of operating expenses to operating income. Operational costs are costs incurred by the bank in order to carry out the main business activity (interest costs, labor costs, marketing costs, and other operating costs). Operating income is the main income of the bank that the interest income earned from the placement of funds in the form of credit and other operating income. The smaller this ratio means more efficient operational costs incurred by the bank in question so that the possibility of a bank in error gets smaller. According Siamat (2005) showed decreased levels of BOPO higher operational efficiency achieved bank, this means more efficient bank assets in generating profits.

D. Net Interest Margin (NIM)

Net Interest Margin (NIM) is important to evaluate the ability of banks to manage risk on interest rates. When interest rates change, interest income and interest expense will change. For example, when interest rates rise, both interest income and interest costs will rise because of some assets and liabilities of banks will be valued at a higher level (Koch and Scott, 2000). NIM ratio is used to measure the ability of bank management in managing its productive assets to generate net interest income (Siamat, 2005). The greater this ratio, the increase in interest income on earning assets managed by the bank so that the possibility of a bank in error gets smaller.

E. Loan to Deposit Ratio (LDR

This ratio is used to assess the liquidity of a bank by dividing the amount of credit granted by the bank to deposit. The higher this ratio, the better the health of banks for a range of 50-100 percent for loans extended by banks smoothly thus making banks increased revenue that will improve health as well. But if LDR> 100 percent, indicating increasingly low ability of the bank's liquidity so that the possibility of a bank in error will be greater (Siamat, 2005). Loans receivable excluding loans to other banks. As for third-party funds are demand deposits, savings deposits, time deposits, and certificates of deposit.

F. Inflation (INF)

Inflation is the macro fundamentals of the macroeconomic indicators describe the economic conditions that are less healthy, because the prices of goods generally increases thus weakening purchasing power. Mankiw (2007) suggests inflation is a rise in the price of goods in general or decrease in purchasing power of a units of currency.

The decline in purchasing power, will affect the decline in demand for products as a result of a company's sales also declined. The decline in sales resulted in lower profits. Decline in corporate profits could affect stock prices, as investors would prefer investments that can provide higher returns. Consequently, if the stock price decreases, the value of the company also declined. Decline in stock prices occurred in accordance with the law of demand, the less quantity of goods demanded, then the price will decline.

G. Interest Rate (IR)

Macroeconomic conditions or the market may be reflected in the interest rate. The interest rate will be reflected on the BI rate, the BI rate is the interest rate that reflects the attitude or policy of monetary policy set by Bank Indonesia and announced to the public.

Husnan (2005) explains, "interest rates will increase r, so that when other variables are held constant, the stock price will decline, in other words; it is expected that there is a negative correlation between movements in interest rates with market conditions."

Changes in interest rates can affect the variability of return of an investment. Theoretically, because it happens: when interest rates rise, the investment return related interests (e.g. deposits) will also rise. This condition will attract investors

who previously invested in stocks will shift or move funds from stocks into the deposits. This if done jointly by investors to sell their shares and move in the form of deposits, then in accordance with the law of demand and supply, if a lot of the sellers of stocks, ceteris paribus, the stock price will go down.

H. Exchange Rate (ER)

Exchange rate is the price or value of the local currency against foreign currencies. The actor in the international market is very concerned about the determination of foreign exchange (forex), because the exchange rate will affect the costs and benefits to the trade of goods, services and securities (Mudrajad, 2010).

A currency of a country highly susceptible to changes, a weaker exchange rate shows that the value of the rupiah depreciated against the U.S. dollar down. If the rupiah appreciation against the rupiah demand is declining and demand for dollars increases. The appreciation of the rupiah against the U.S. dollar would cause investors choose to sell part or all of its shares to be transferred to the foreign currency and then invest the savings elsewhere. This will cause the share price down so that impact on the return.

I. Gross Domestic Product (GDP)

Economic growth is the out come variables arising from changes in inflation, interest rates and exchange rates. Economic growth is often used as a barometer to predict macroeconomic investment. If economic growth increasing, then there is an indication that the investment outlook is also good (Mankiw, 2007).

High economic growth illustrates increasing purchasing power (Mankiw, 2007). Increased purchasing power will spur increased economic activity or transaction, and is a positive signal for the company to improve its operations. Therefore, increased economic growth, directly or indirectly, will increase investment in the real sector and capital market activities, resulting in improved performance of the stock market, so it will have implications for stock return.

2.2 Stock Return (R)

The main concern of an investor is the expected stream of cash flows in the future. The cash flows are comprised of two elements namely; dividends expected to be received each year, and rising prices are expected to be received by investors when they sell the stock, it is in line with the opinion Gitman (2000), "Stockholders expect to earn a return by receiving dividens periodec distribution of earnings-or by Realizing through in increase of share prices".

Measurement much stock returns using total return approach, total return is the overall return of an investment in a particular period; the total return is also often referred to return it. Total return consisting of capital gain (loss) and yield, capital gain or capital loss is the difference between the current price of investment relative to last period's price. Where as the yield is the percentage of cash receipts periodically the investment price of an investment period. For stocks, the yield is the percentage of dividend to share price the previous period. Jogiyanto (2009) describes the return calculation formula is as follows:

$$\text{Return} = \text{Capital Gain (loss)} + \text{Yield} \qquad ...(2)$$

Research Hypothesis

a. There is a positive influence CAR, BOPO, NIM, and GDP on Stock Return (R) at SRI Kehati listed companies in Indonesia Stock Exchange (IDX).
b. There is a negatively influence NPL, INF, ER on Stock Return (R) at SRI Kehati listed companies in Indonesia Stock Exchange (IDX).

III. RESEARCH METHODS

In accordance with the research objectives to be achieved, the method used in this study is a quantitative analysis method. His approach with the linear regression equation of the type of panel data (pooled data) which is a combination of time series data with cross-section (Gujarati, 2010)

The population is the entire group of SRI Kehati company listed on the Indonesia Stock Exchange (IDX) in the study period (2009 -2013). Total population in this study is as much as 36 companies to the SRI Kehati. The sampling technique through purposive sampling method in order to obtain appropriate samples for the purpose of research. Purposive sampling method is based on several considerations on certain criteria. Criteria for stocks that will do the research for the study sampled a group of SRI Kehati recorded throughout the study period. Based on these criteria, the number of samples used in this study were 7 companies, as shown in Table 2 below:

TABLE 2
Sample Research

No.	Kode	Nama
1	BBCA	Bank Central Asia
2	BBRI	Bank Rakyat Indonesia
3	BDMN	Bank Danamon Indonesia
4	BMRI	Bank Mandiri
5	BNGA	Bank CIMB Niaga
6	PNBN	Bank Pan Indonesia
7	BBNI	Bank Negara Indonesia

Source: http//: www.idx.co.id

The model used is the author of **Dynamic Panel Data** that refer to the formulation of models of Arellano and Bond (1991).

$$\mathbf{R = f\ (CAR, NPL, BOPO, NIM, LDR, INF, IR, ER, GDP)}$$

$$R_{it} = \alpha_1 R_{i(t-1)} + ß_1 CAR_{it} + ß_2 NPL_{it} + ß_3 BOPO_{it} + ß_4 NIM_{it} + ß_5 LDR_{it} + ß_6 INF_{it} + ß_7 IR_{it} + ß_8 ER_{it} + ß_9 GDP_{it} + \varepsilon_{it}$$

Where:

R_{it} = The dependent variable (Stock Return) every bank in period t
$R_{i(t-1)}$ = Lag1 of Stock Return
CAR_{it} = Capital Adequacy Ratio in period t
NPL_{it} = Non Performing Loan in period t
$BOPO_{it}$ = Operating Expense to Operating Income in period t
NIM_{it} = Net Interest Margin in period t
LDR_{it} = Loan to Deposit Ratio in period t
INF_{it} = Inflation in period t
IR_{it} = Interest Rate in period t
ER_{it} = Exchange Rate in period t
GDP_{it} = Economic Growth in period t
i = Individual companies
t = Time of observation in the study (period 2009-2013)
α 1 = Coefficient $R_{i(t-1)}$
ß 1 ...ß 7 = Coefficient CAR variables it ... GDP it
ε_{it} = Standard error

IV. RESULT AND DISCUSSION

The following table shows the estimation results using the First-Differences Generalized Method of Moments (FD-GMM).

TABLE 3
Results Estimation Using FD-GMM Method

Variabel	Coefficient	Std. Error	Prob.
RETURN(-1)	0,198	0,036	0,000
CAR	0,089	0,022	0,000
NPL	-0,018	0,032	0,038
BOPO	-0,027	0,007	0,000
NIM	0,040	0,042	0,000
LDR	0,003	0,005	0,503
INF	-0,000	0,000	0,007
IR	0,283	0,056	0,000
ER	-0,040	0,013	0,004
GDP	0,056	0,064	0,481
R-squared		0,443	
F-statistik		4,752	
Prob(F-statistik)		0,000	
Arellano Bond Test			
m_1		0,018	
m_2		0,759	
Sargan Test		0,998	

Sources: Eviews and STATA output (processed)

The results of the GMM estimation shows all the signs of the coefficients are consistent with the theory. Based on the estimates used in Table 3 can be formed estimation model Stock Return (R) as follows:

$$\mathbf{R = 0{,}198\ R_{(t-1)} + 0{,}089\ CAR - 0{,}018\ NPL - 0{,}027\ BOPO + 0{,}040\ NIM + 0{,}003\ LDR + 0{,}283\ GDP - 0{,}040\ INF - 0{,}000\ ER + 0{,}904}$$

From the above model and based on Table 3 shows the coefficient of lagged dependent variable (Rt-1) is positive (0.198) and significant at the 95% significance level (α = 5%). This means that the increase in stock return of banking companies listed in Indonesia Stock Exchange (IDX) in the previous period will result in the increase in stock return in future periods.

Loan to deposit ratio (LDR) is not significant at the 95% significance level (α = 5%) of the stock return. The results of this study indicate that the LDR has no effect on stock returns. This illustrates that the loan conditions in the banking company does not represent the stock return. Or in other words the total credit banking company is not overly concern investors.

The estimation results using the method Fisrt-Different Generalized Method of Moment (FD-GMM) show that stock returns can go up and down due to the rise and fall of the Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), Operating Expenses to Operating Income (ROA) , Net Interest Margin (NIM), economic growth (GDP), inflation (INF) and exchange rate (ER).

Estimating equations banking company stock returns above have R-square (coefficient of determination) were obtained from the regression results as shown in Table 4.6 above is equal to 0.443, which means 44.3 percent of the changes in stock returns can be explained by changes in the Capital Adequacy Ratio (CAR), Non Performing Loan (NPL), Operating Expenses to Operating Income (ROA), Net Interest Margin (NIM), the Loan to Deposit Ratio (LDR), Economic Growth (GDP), inflation (INF) and Exchange Rate (ER). While the remaining 55.7 percent affected by factors other than the nine independent variables. Other factors beyond the study variables not examined here is the capitalization shares, dividends and moments.

V. CONCLUSION

Based on the analysis in the previous section, the conclusions of this research are as follows:

a. Partialy (individual) variable CAR, NIM, IR and GDP have a positive and significant influence to Stock Return (R). On the other hand, variables NPL, BOPO, IR and ER have a negative and significant influence to Stock Return (R).
b. Taken together (simultaneously) variable CAR, NPL, BOPO, NIM, LDR, INF, IR, ER and GDP contributed significantly to the Stock Return (R) Banking Companies Listed in the SRI-Kehati Index, 2009-2013 period.

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