The Effect of Profitability, Sales Growth and Dividend Policy on Stock Prices

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Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

Original Research Article

ABSTRACT

Aims: This study aims to analyze the effect of profitability, sales growth and dividend policy on stock prices.
Study Design: The research method used is quantitative research.
Place and Duration of Study: This research sample is a manufacturing industry sub-sector manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2016 - 2018.
Methodology: The analytical method used is the multiple regression test using SPSS.22 analysis tools, namely with a descriptive test, a classic assumption test, a model suitability test, and a regression test.
Results: The results showed that ROA and Dividen Policy had significant positive effect on Stock Prices, But Sales Growth had no effect on Stock Prices.
Conclusion: This shows the interest of investors to invest in shares issued by companies that have good performance. Therefore, companies need to maintain company performance so that their shares remain attractive to investors.

Keywords: Share prices; profitability; sales growth; dividend policy.

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1. INTRODUCTION

Share price is the value of a stock that is formed in the securities market as a result of existing supply and demand. The external factors (macro environment) that can affect share prices include domestic political turmoil, the country's macroeconomic conditions, inflation rates, changes in interest rates, changes in government regulations, and so on. Company fundamentals such as financial performance and company management are internal factors that affect stock prices, [1].

There are several factors which affect the stock price of a company, [2]. But from these factors, financial information is one of the main elements used by investors in making decisions, [3]. The manufacturing industry sector companies are engaged in trade, so that stock life can be formed from the whole economic system such as financial policy, monetary policy, foreign trade policy and other macroeconomic factors.

Investors have various considerations to decide on a stock investment in the capital market. Erratic fluctuations in share prices that carry risks cause investor uncertainty in determining investment decisions, such as the company's financial condition contained in annual reports. The announcement of accounting information gives a signal that the company has good prospects in the future so that investors are interested in trading stocks, thus the market will react as reflected by changes in stock prices, [4,5].

The company's financial performance report is an indicator used by investors to date. In the financial statements, investors certainly see the company's profitability and sales growth. Houlthausen and Verrechia (1991) in [6] the investment policies or decisions of the investors, are strongly influenced by the company's financial performance information. Company growth as measured by sales growth affects the value of the company or the company's stock price because the company's growth is a sign of good company development that impacts a positive response from investors, [7].

In addition to profitability and sales indicators, another factor that can be a determinant of stock prices is dividend policy. Dividend payout ratio is a determinant of the amount of profit to be retained in a company as a source of funding and also a determinant of how much dividend income will be distributed to investors, [8].

2. LITERATUR E AND HYPOTHESIS DEVELOPMENT

2.1 Signalling Theory

Signal is an action taken by the company to give instructions to investors about how management views the company's prospects. According [9] information released by the company is important, because it affects the investment decisions of parties outside the company. Companies with favorable prospects will try to avoid selling shares and making every new capital needed by other means.

2.2 Agency Theory

Agency theory is the theoretical basis underlying the company's business practices so far. [10] defines agency theory as a contract between one or several principals who delegate authority to others (agents) to make decisions in running a company. Agency theory has the assumption that each individual is solely motivated by his own interests, causing a conflict of interest between the principal and agent.

2.3 Stock Price

Stock Price are a sign of capital participation in a limited liability company with benefits that can be obtained by investors, in the form of dividends, capital gains, and power, pride and voting rights in determining the course of the company. Stock prices can be divided into 3 (three), namely: Nominal Prices, Initial Prices and Market Prices [11].
Stock prices can also be interpreted as prices formed from the relationship of the seller and buyer of shares in the hope of company profits, for that investors need information relating to the formation of these stock prices in making decisions to sell or buy shares, [12]. This study uses stock prices taken one week after the date of publication of the financial statements (the period).

2.4 Dividend Policy

Optimal dividend policy in a company is a policy that creates a balance between current dividends and future growth so as to maximize stock prices, [13]. Factors affecting dividend policy; Government regulations, Obstacles in

agreements / contracts, Internal barriers, Estimated future growth, Consideration of company owners, and Market considerations.

2.5 Profitability

Profitability is the company's ability to make a profit. If the company has a high level of profitability, then the company will get high profits so that it can attract investors to consider buying company shares, one of which is to look at the ratio of return on assets, [14]. Economically, the higher the rate of return obtained, the higher the company's ability to use its assets to make a profit, [15], companies with good return on assets have the potential to attract investors.

2.6 Sales Growth

Sales growth is defined as an increase in the number of sales from year to year or from time to time. The company's growth rate as measured by sales growth affects the value of the company or the company's stock price because the company's growth is a sign of good company development that impacts a positive response from investors, [12].

According [9] Sales growth reflects the company's ability to increase sales over time. A high level of sales growth of a company portrays the company's success in carrying out its marketing and product sales stagies.

2.7 Profitability to Stock Prices

The ability of ROA in predicting stock prices is possible because the nature and pattern of ROA carried out by the company are very precise so that there are several assets that are worked on or used efficiently so as to obtain the maximum stock price. So the relationship between ROA and stock price is positive and significant, which means that an increase in ROA can increase share prices, [16,17]. The hypothesis can be drawn as follows:

H1: Profitability has a positive effect on stock prices.

2.8 Sales Growth to Stock Prices

Sales growth reflects the success of investment in the past period and can be used as a prediction of future growth, [18]. Companies that have high sales growth rates will need more investment in various elements of assets, both fixed assets and current assets. The management needs to consider the right source of funding for the expenditure of these assets, so that companies with growth rates will affect the ability to maintain profits, [6]. The hypothesis can be drawn as follows:

H2: Sales Growth has a positive effect on stock prices.

2.9 Dividend Policy to Stock Prices

Dividends can help provide good information about company management to the capital market, [9]. Dividends distributed by companies can be in the form of cash dividends, meaning that each shareholder is given cash dividends in a certain amount of rupiah for each share or it can also be a meaningful stock dividend to each shareholder. Dividend policy is used as a signal by investors in making investment decisions which will ultimately affect the company's stock price, (Fitri & Purnamasari, 2018). The hypothesis can be drawn as follows:

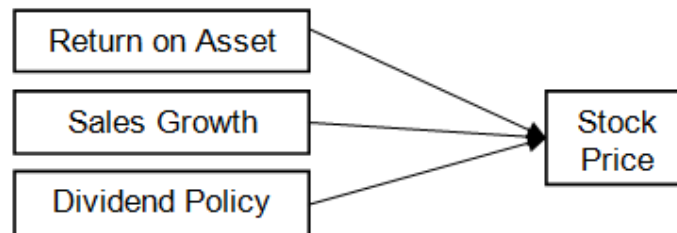H3: Dividend Policy has a positive effect on stock prices.

Fig. 1. Frame work

3. METHODS RESEARCH

3.1 Research Design

This type of research is causal research, which is research that aims to test the hypothesis about the effect of one or several variables on other variables, [19]. The population of this research is the manufacturing industry sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018. The sampling technique used in this study is the purposive sampling method, where the sample is selected based on the suitability of the characteristics with the criteria (consideration) of the sample determined to obtain a representative sample. The sample of this research is 35 companies multiplied by the number of years of observation, so the total sample is 105 data.

Table 1. Operasional variable

Variable	Measurement	Skala	Source
Stock Price	*Price per 1 week after the Financial Report is published*	Rasio	[20]
Dividen Payratio	*DPR* = Dividend per share / Earning per share	Ratio	[13].
ROA	ROA = Earning After Tax / Total Asset	Rasio	[14]
Sales Growth	Sales Growth = $\dfrac{\text{Sales}_t - \text{Sales}_{t-1}}{\text{Sales}_{t-1}}$	Rasio	[14]

3.2 Analysis Method

This study uses SPSS 22 analytical tools. The analytical test conducted is descriptive test, Classic Assumption Test, Model Conformity Test, and Multiple Regression Test, [21]

$$Price = \alpha + \beta_1 ROA + \beta_2 SG + \beta_3 DPR + \varepsilon$$

Information:

Price = Stock Price
a = constant
$\beta_1, \beta_2, \beta_3$ = Regression Coefficient
ROA = Return on Assets
SG = Sales Growth
DPR = Dividen Payratio
ε = Error

4. RESULTS AND DISCUSSION

4.1 Results

1. The share price of manufacturing industry consumption companies has a minimum value of 114, namely Pt Kedaung Indah Can, Tbk and a maximum value of 78150, namely Pt Gudang Garam. Tbk.
2. Profitability is measured using Return on Assets (ROA) which is an asset that shows the company's ability to generate profits against total assets. The ability of manufacturing companies in the consumption industry sector shows good performance in return on assets, with an average ROA of 6.8%.
3. Sales growth is an increase in the number of sales from year to year or from time to time. In the manufacturing industry sector manufacturing companies found several companies that experienced negative sales growth, the minimum value owned by PT Tiga Pilar Sejahtera, Tbk. And the maximum value is owned by PT Prasidha Aneka Niaga. However, on average, sales growth in manufacturing companies in the consumption industry sector grew positively.
4. Dividend policy measured by dividend pay ratio illustrates dividends received by shareholders where the amount depends on the number of shares owned. Many companies do not distribute dividends to investors, this can be due to many factors, it can be due to negative profits or in accordance with policies and contracts between companies and investors. But on average the manufacturing industry manufacturing companies distributed their dividends of 1498.

Table 2. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. deviation
Price	105	114	78150	6175.00	14386.671
ROA	105	-264.10	92.10	6.8495	30.35786
GROWTH	105	-.7020	.5002	.048004	.1307212
DPR	105	-1086.96	76633.17	1498.5463	10404.21265
Valid N (listwise)	105				

Source: data processing results, SPSS. 22

4.1.1 Classic assumption test

Based on the results of the Kolmogorov-Smirnov test above, originally the significant value obtained was less than 0.05 or 0.000 <0.05 or it can be said that the data were not normally distributed. Therefore, in order to obtain normally distributed data, testing is carried out through data manipulation by transforming data on stock price variables, ROA, and Sales Growth using the Log10 transform. Subsequent results obtained significant values of more than 0.05 or 0.200> 0.05, so it can be concluded that the data are normally distributed and the regression model can be used as the next test.

Based on Table 4 all independent variables do not have a significant relationship because they are above α> 0.05, so it can be concluded that all the independent variables have no heteroscedasticity problems.

Based on data from Table 5 above shows that the results of the calculation of the tolerance value of the independent variable is greater than 0.10 and the results of the calculation of the value of the Variance Inflation Factor (VIF) are less than 10, it can be concluded that there is no multicollinearity between the independent variables in the regression model.

Based on Table 6, it can be seen that the value of Durbin Watson is 0.851. DW value is between -2 to 2, meaning that the DW value is greater than -2 and smaller than 2 (-2 <1,253 <2), it can be concluded that there is no autocorrelation. So the regression model is said to be good because regression is free from autocorrelation.

Table 3. Normality test results

One-sample kolmogorov-smirnov test		
		Unstandardized residual
N		70
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.49086295
Most Extreme Differences	Absolute	.088
	Positive	.088
	Negative	-.040
Test Statistic		.088
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal
b. Calculated from data
c. Lilliefors Significance Correction
d. This is a lower bound of the true significance

Table 4. Heteroskedacity test results

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	.302	.134		2.252	.028
	ROA	.084	.095	.109	.880	.382
	Growth	.008	.082	.012	.101	.920
	DPR	-3.558E-7	.000	-.014	-.114	.909

a. Dependent Variable: ABS_RES

Table 5. Multicollinearity test results

Model		Collinearity statistics	
		Tolerance	VIF
1	(Constant)		
	ROA	.971	1.030
	Growth	.987	1.013
	DPR	.962	1.039

a. Dependent Variable: Price

Table 6. Autocorrelation test

Model	Durbin-watson
1	0.851

Table 7. Determinant test

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.671[a]	.450	.425	.50189

a. Predictors: (Constant), DPR, Growth, ROA
b. Dependent Variable: Price

Table 8. Test results F

ANOVA[a]						
Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	13.592	3	4.531	17.986	.000[b]
	Residual	16.625	66	.252		
	Total	30.217	69			

a. Dependent Variable: Price
b. Predictors: (Constant), DPR, Growth, ROA

Table 9. Test result t

Coefficients[a]						
Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.534	.208		12.167	.000
	ROA	.923	.148	.578	6.233	.000
	Growth	.031	.127	.023	.247	.806
	DPR	1.359E-5	.000	.261	2.804	.007

a. Dependent Variable: Price

4.1.2 Model conformity test

If you look at the value of R Square, it can be said that the independent variable in predicting the dependent variable is the company value of 45%, while the remaining 55% is influenced by variables outside the study.

The F test value has a sig of 0,000 or below 0.05 which means that simultaneously or jointly influences the dependent variable firm value.

Based on the t test results table obtained from 3 variables measured to test the effect of stock prices on manufacturing companies in the consumption industry sector, the following conclusions are obtained:

1. The variabel of ROA variable has a positive effect on the value of the company in manufacturing companies, because the value of sig is taken 0.005. so it can be concluded that hypothesis 1 is accepted

2. The variable of Sales Growth has not effect on firm value in manufacturing companies, because the sig value is above 0.005. so it can be concluded that hypothesis 2 is not accepted.

3. The variable of Dividend Pay Ratio (DPR) has a positive effect on the value of the company in manufacturing companies, due to the sig value below 0.005. so it can be concluded that hypothesis 3 is accepted.

4.1.3 Analysis model

Price = 2.534 + 0.923ROA + 0.031SG + 0.00001359 DPR

From the results of the t test table above it can be said that if there are no variables that influence the value of the stock price of 2,534. If there is an additional 1 point from the ROA variable, it will increase the value of the stock price by 0.923. Then if there is an addition of 1 point from the variable sales growth it will increase the value of the stock price by 0.031. Then if there is an additional 1 point from the DPR variable, it will increase the value of the share price by 0.00001359.

4.2 Discussion

4.2.1 Effect of ROA to stock price

Hypothesis test results show that ROA has a positive effect on stock prices in manufacturing sector manufacturing companies listed on the Indonesia Stock Exchange (IDX). These results can be said that when the company's profits are shown to increase, then the market price of shares of the consumption industry sector companies will also tend to go up and investor perceptions about the company affect the demand and supply of shares in the secondary market. This shows the interest of investors to invest in shares issued by companies that have good performance. Therefore, companies need to maintain company performance so that their shares remain attractive to investors, [22].

The ability of ROA in predicting stock prices is possible because the nature and pattern of ROA carried out by the company are very precise so that there are several assets that are worked on or used efficiently so as to obtain maximum stock prices, [16,2].

4.2.2 Effect sales growth to stock price

Hypothesis test results show that sales growth has a significant positive effect on stock prices in consumer sector manufacturing companies listed on the Indonesia Stock Exchange (IDX). It can be said that one of the causes is the increase in selling expenses and operating expenses which causes net income to fall even though sales growth is up so that when sales growth increases, it is not always accompanied by an increase in stock prices. This result contradicts the signal theory where information issued by the company is important, because of its influence on investment decisions outside the company, [9].

These results are consistent with [23], In fact, in making investment decisions, investors do not pay enough attention to the sales growth of a company. Thus, sales growth does not attract investors to buy shares in the company. So that the increase in sales growth does not increase the company value significantly. However, contrary to [6], the tendency of companies with high growth rates to produce future cash flow rates and high market capitalization so as to enable companies to have costs. This increases confidence in public sentiment that leads to thinking that the company has an exciting prospect in the future, (Hossain & Ali, 2012).

4.2.3 Effect of dividend policy to stock prices

Hypothesis test results show that dividend policy through DPR has a positive effect on stock prices in consumer sector manufacturing companies listed on the Indonesia Stock Exchange (BEI). It can be said that dividend payment information is an important piece of information for investors, because the information contains information relating to future investment returns. This result is in accordance with the signal theory, by increasing the value of dividends paid, the issuing company tries to give a positive signal that the company has good prospects in the future. Conversely, cutting dividend value by the company will be considered a bad signal because it will be considered as a lack of liquidity.

This result is in accordance with [24] which states that the dividend policy is used as a signal by investors in making investment decisions which in turn will affect the company's stock price. Share prices react to existing information, including dividend distribution information.

5. CONCLUSION AND SUGGESTION

5.1 Conclusion

1. Profitability has a significant positive effect on stock prices in manufacturing industry sector manufacturing companies.

2. Sales growth has an insignificant effect on stock prices in manufacturing companies in the consumption industry sector.
3. Dividend policy has a significant positive effect on stock prices in manufacturing companies in the consumption industry sector.

5.2 Suggest

1. Academics are expected to add other variables beyond the variables in this study such as corporate governance or social responsibility variables to obtain more varied results and use different types of companies as a comparison.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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