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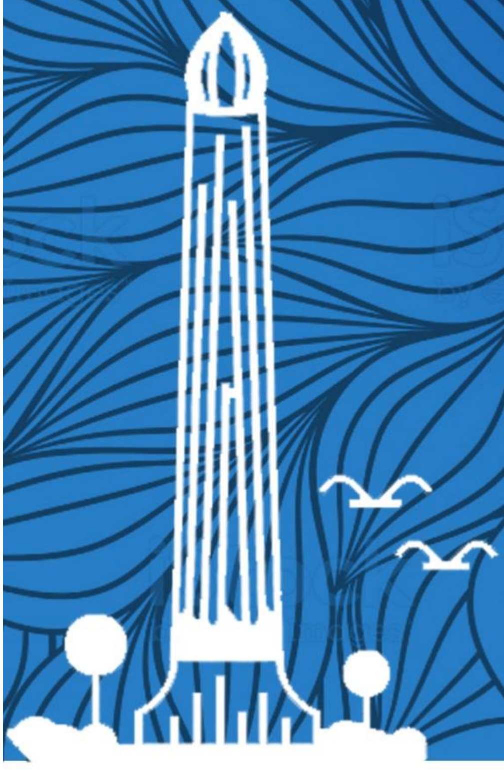

ICOBBI

MARKETING INTERNATIONAL SEMINARS AND THE 4th INTERNATIONAL CONFERENCE ON BUSINESS AND BANKING INNOVATIONS

Surabaya, 29th January 2022

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The 4th ICOBBI

The Strategy of Digital in Business for Gaining Competitive Advantages after Pandemic

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Proceeding Book of The 4th International Conference on Business and Banking Innovations (ICOBBI) 2022 "The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic"

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FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 4th International Conference on Business and Banking Innovations (ICOBBI) with the topic "The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic". This proceeding contains several researches articles from many fields in Business & Marketing, Banking & Sharia Banking, Accounting & Financial Management, Human Resources Management, Operations Management, Investasi, Insurance & Capital Market, Strategic Management, Technology Management, and Information System.

The 4th International Conference on Business and Banking Innovations was held on 29th January 2022 by virtual (online) zoom meeting and organized by the Master Management Study Program of Universitas Hayam Wuruk Perbanas in Collaboration with five Higher Education Institutions in Indonesia and three Universities from Asia countries. Keynote speakers in this conference were: Chonlatis Darawong, P.hD (Sripatum University, Thailand), Associate Prof. Dr. Ellisha Nasrudin (University of Science, Malaysia), Dr. Sanju Kumar Singh (Postdoctoral Fellowship in Universitas Airlangga, Tribhuvan University Nepal) and Prof. Dr. Abdul Mongid, MA., P.hD (Universitas Hayam Wuruk Perbanas, Indonesia).

I would like to give high appreciation to the Rector of Universitas Hayam Wuruk Perbanas for his support at this event. Acknowledgments and thank you to all the steering and organizing committees of the ICOBBI for the extra ordinary effort during the conference until this proceeding published. Thank you very much to all presenter and delegates from various Universities. Beside it, I would like to express our gratitude to the three universities, namely Universitas 17 Agustus Surabaya, STIE YKPN Yogyakarta, Universitas Negeri Gorontalo, Universitas Surabaya and Universitas Muhammadiyah Surakarta which has been the co-host of this event.

Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website http://eprints.perbanas.ac.id/

Chair of the Master Management Study Program
Universitas Hayam Wuruk Perbanas

Prof. Dr. Tatik Suryani, M.M.

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The Effect of Fundamental and Macroeconomic Factors to Stock Return

Aprilia Setiadi Lukas[1], Werner R. Murhadi[2*], Arif Herlambang[3]

[1] University of Surabaya, Indonesia
*Corresponding Author. Email: Werner@staff.ubaya.ac.id

ABSTRACT:
This study examines the effect of fundamental and macroeconomic factors on the return on company shares in Indonesia. Fundamental factors in this study are represented by the dividend-price ratio, dividend yield, earning-price ratio, stock return variance, book-to-market ratio, net equity expansion, term spread, and default return spread. Meanwhile, macro factors are represented by the treasury bill rate, long-term yield, and inflation. This study uses a quantitative approach with a multiple linear regression method. The sample in this study were all companies listed on the Kompas-100 Index. The study results stated that the dividend yield variable, price-earnings ratio, stock return variance had a significant positive effect on stock returns. Inflation and default return spread do not affect stock returns. The book-to-market ratio, net equity expansion, and long-term return significantly affect stock returns.

Keywords: *stock return, fundamental factors, macro factors.*

1 INTRODUCTION

The Indonesian capital market is increasingly attractive to investors, as seen from the growth in the number of issuers listed on the Indonesia Stock Exchange (IDX), reaching an average of 7.53% in the last five years. The more investors are interested in the Indonesian capital market; the more companies will be listed on the Indonesia Stock Exchange (IDX). This phenomenon happens because when investing in the capital market, the main goal of investors is not only to get returns but also to maximize profits as a form of positive position correlation between expected return and risk [1], [2]. In addition, to get the maximum return, investors must consider external factors that can affect returns, such as macroeconomic factors, as a consideration before investing [3].

Research that focuses on factors that influence changes in stock value becomes interesting to observe both theoretically and for investors. For investors, the main reason for investing is to get an increase in long-term assets. Several studies combine the company's fundamental and macroeconomic factors in predicting the value of a company's stock. The independent variables used are fundamental factors (dividend-price ratio, dividend yield, earning-price ratio, stock return variance, book-to-market ratio, net equity expansion, term spread, and default return spread) and macroeconomic factors (treasury bill rates, long-term yields, and inflation).

The fundamental factor that becomes the first focus is dividend policy. The bird in hand theory states that companies that distribute significant dividends will be responded to by increasing stock prices in the market [4]–[6]. The following fundamental factor is the company's profit, represented by the earnings-price ratio

(EP). The company's high net profit can be used to distribute dividends to respond to an increase in stock prices. Meanwhile, the company's risk also positively affects stock returns. One of the proxies used to measure a company's investment risk is stock return variance (Dai and Zhu, 2020). However, other studies have found that stock return variance (SVAR) has no effect on stock returns [4]–[6]. The following fundamental variable is the book-to-market (BM) ratio. If there is an increase in BM, the prediction of stock also returns increases, which means that the book value of the stock is higher than the stock price in the market, the stock price will likely increase and adjust the book value of the stock, meaning that the stock has the prospect of providing a high return. BM aims to describe the preferences of investors who invest in certain companies to predict the growth and return of preferred and unfavorable stocks [7], [8]. However, several studies have also found that the book-to-market (BM) ratio does not affect returns [4]–[6]. Next is the net equity expansion (NTIS), the ratio of the number of outstanding shares to the value of share capitalization. NTIS has a positive effect on stock returns [4], [6], while other studies found insignificant results [5], [6]. The company's next fundamental factor is the term spread showing the difference between long-term bond returns and short-term bond returns so that an increase in TMS means an increase in long-term bonds, which means the greater the risk that bondholders must bear. Several studies have found positive results from term spread on stock returns [4], [6]. In addition to the term spread, there is also a default return spread (DFR) variable that positively influences stock returns [6]. The higher the DFR means, the greater the yield on corporate bonds, the greater the bondholder risk due to high leverage so that the expected return of shareholders also increases with the company increasing corporate profits.

Meanwhile, the macro variables that are predicted to affect stock returns include three things, namely the treasury bill rate, long-term yield, and inflation. Several studies have found that the treasury bill rate (TBL) has a positive effect on stock returns, which means that the greater the interest rate on the treasury bill indicates an increased risk so that the coupons given to bondholders also increase [4]–[6]. The following macro variable is long-term yield (LTY), which positively affects stock returns [4]–[6]. One of the factors that determine changes in stock returns is bond yields. The longer the bond period indicates, the higher the risk (volatility) of the bonds so that the yield offered by the government is also significant so that companies will try to offer higher stock returns than LTY [9]. The last variable from the macro factor that will be used in the study is the inflation variable (INFL), which was found to positively affect stock returns [6]. The high INFL makes investors consider making investment decisions well because when inflation rises, the risk also increases, namely the risk of not getting a profit from the funds invested. In general, return is directly proportional to risk, where the higher the risk, the higher the return on the investment. When inflation increases and interest rates increase, market expectations of the predictability of stock returns will also increase [10].

Based on the explanation above, this research will examine: Does the dividend-price ratio positively affect stock returns? Does dividend yield have a positive effect on stock returns? Does the earning-price ratio have a positive effect on stock returns? Does stock return variance have a positive effect on stock returns? Does the book-to-market ratio have a positive effect on stock returns? Does net equity expansion have a positive effect on stock returns? Does the term spread have a positive effect on stock returns? Does the default return spread have a positive effect on stock returns? Does the treasury bill rate have a positive effect on stock returns? Does long-term yield have a positive effect on stock returns? Does inflation have a positive effect on stock returns?

2 RESEARCH METHODS

This study uses a sample of companies in the Kompas100 index. The dependent variable in this study is stock returns. The independent variables in this study are fundamental factors (dividend-price ratio, dividend yield, earning-price ratio, stock return variance, book-to-market ratio, net equity expansion, term spread, and default return spread) and macroeconomic factors (treasury bill rate, long-term Yield, and inflation). *Net equity expansion* is an indicator used to measure the company's performance when issuing shares. Net equity expansion is calculated by the number of shares issued divided by the market capitalization value. Term Spread is an indicator to determine the variation of expected return to assist investors in making decisions related to asset allocation. TMS can be obtained from the difference between long-term corporate bond returns and 3-month bond returns in this study. The default return spread is obtained from the difference between corporate bond returns and government bond returns. Treasury Bill Rate is the Yield of short-term government bonds (treasury bills) circulating on the secondary market so that the government is obliged to pay the owner of the bill at a predetermined maturity or time. The Treasury Bill Rate variable will use the 3-month government bond yield index in this study. Long-Term Yield is the Yield on long-term government bonds. The Long-Term Yield variable will use index data for long-term bonds yields (10 years) in this study. Inflation in this study was measured using the Consumer Price Index (CPI).

3 RESULTS AND DISCUSSION

This study uses a sample of 188 observations from 47 companies. The Chow and Haussmann tests were carried out using panel data, where the model is to be interpreted as the common effect model.

Table 1. Result for Model 1

	Coeff.	t-stat
Dividend Yield	2.30	3.49***
Earning to price ratio	0.24	2.48**
Stock return variance,	38.32	6.48***
Book-to-market ratio,	-0.09	-4.63***
Net equity expansion,	-1391	-2.18**
Default return spread	0.00	1.14
Long Term Yield	-17.38	-3.05***
Inflation	1.99	0.68
R Squared	0.339	
Adj. R. Sq.	0.309	
F Stat.	11.48***	

Note: *** Sig at α = 1%;
** Sig at α = 5%; * Sig at α = 10%

From table 1, it can be seen that the dividend yield variable has a significant positive relationship to stock returns. The results of this study prove that the dividend-price ratio has a significant positive effect on stock returns, which means that the greater the dividend yield indicates that the return obtained by investors in the form of dividends is also getting more significant so that it attracts investors and increases stock demand. The higher the demand for stocks, the higher the price and stock returns [6], [11]. Dividend yield can have a positive and significant effect because investors tend to buy shares that can offer higher dividends to investors so that stock prices can increase [12], [13]. Thus, it can be said that dividend yield has a positive and significant effect on stock returns.

The earning-price ratio variable has a significant positive relationship with stock returns. This result means that the higher the earnings price ratio indicates an increase in company profits so that the returns to be obtained by shareholders will also increase [6]. The increase in the earning price ratio indicates that the company is experiencing financial growth through increased profits [14]. That way, an increase in the earning price ratio can attract investors to increase stock prices and returns.

The stock return variance variable has a significant positive effect on stock returns. This result means that the greater the SVAR level, the more volatile the movement of the stock, so it can be said that the stock is higher at risk [6]. Following one of the ten principles of financial management, namely "The Risk-Return Trade-Off," the more risky a stock is, the higher the return.

The book-to-market variable has a significant negative effect on stock returns. The book-to-market ratio compares the book value and market value of a stock. The higher the book-to-market ratio indicates that the stock is undervalued, meaning that the stock market price is lower than its book value. The low stock market price makes some investors who prioritize the principle of prudence in investing tend to sell shares to reduce risk. This selling share at the same time can have an impact on the decline in stock prices. That way, the higher the book-to-market ratio can reduce stock returns [15]. Conversely, investors will respond to an increase in market prices by investors marked by buying activity on shares. Therefore, the book-to-market ratio has a significant negative effect on stock returns.

The net equity expansion variable has a significant negative effect on stock returns. The greater the net equity expansion indicates that the company's number of shares issued (right issues) has increased so that it can cause dilution (decrease in share ownership) for the old shareholders. In addition, rights issues can reduce share prices because the company certainly offers new share prices that are cheaper than the market price so that many shareholders sell shares [16]. That way, the stock price will decrease and impact the decline in stock returns. Therefore, net equity expansion significantly negatively affects stock returns [17].

The default return spread variable does not affect the stock return variable. This result is due to the type of investor who invests in the short term compared to the long term to make a profit and minimize risk so that profit-taking appears [5]. In uncertain economic conditions, investors will make short-term investments with the principle of prudence [18]. The greater the return on bonds, the greater the demand for shares. Thus, it can be said that the default return spread variable does not affect stock returns.

The long-term yield variable has a significant negative effect on stock returns. The higher the interest rate on bonds the government offers can cause investors to shift their investment from stocks to bonds. This movement can cause stock prices to decline [19]. investors will rationally prioritize investment instruments with low-risk levels and high returns [20]. That way, when the interest rate on government bonds increases, there is a tendency for investors to choose bond investments that have a lower risk level than stock investments so that stock prices and returns will decrease [21]. Conversely, when the interest rate decreases, investors will shift their investment to more profitable stocks so that the demand for shares increases and impacts increasing prices and stock returns. Thus, it can be said that government bonds can have a significant adverse effect on stock returns.

The inflation variable does not affect the stock return variable. Inflation is a macroeconomic problem where prices generally increase with economic growth. *Inflation* is a phenomenon that is more directed to macroeconomic fundamentals than companies. In addition, inflationary developments will align with developments in selling prices and production costs so that companies do not experience losses. Therefore, it can be said that inflation does not affect stock returns[22].

4 CONCLUSION

The study results found that dividend yield has a significant positive relationship to stock returns because the greater the dividend that can be given to investors, the greater the demand for these shares caused by the return obtained by investors in the form of dividends. The study results found that the earning-price ratio has a significant positive effect on stock returns because the greater the profit earned by the company, the demand for shares will also increase with the assumption that the returns obtained by shareholders also increase. The study results found that stock return variance had a significant positive effect on stock returns because the greater the volatility of stock movements, the higher the risk of the stock. However, following financial principles, the greater the risk, the greater the return obtained. The study results found that the book-to-market ratio has a significant negative effect on stock returns. The higher the book-to-market ratio indicates that the stock is in an undervalued condition, which means that the stock market price is in a low or low condition so that there is a tendency for investors to sell shares, especially for investors who prioritize the precautionary principle and cause stock prices and returns to decline. Thus, it can be said that the book-to-market ratio has a significant negative effect on stock returns. The study results found that net equity expansion had a significant adverse effect on stock returns because the greater the net equity expansion, the larger the number of shares issued by the company. This issued share can cause dilution for existing shareholders. In addition, the issuance of shares can lower the share price because the offered share price is lower than the market price: that way, the greater the net equity expansion, the lower the stock return.

The study results found that the default return spread does not affect stock returns because the type of investor is taking profit in the short term. In addition, uncertain economic conditions are also a reason for investors who have the principle of prudence. In this way, the more significant the difference in corporate and government bonds yields, the less the stock returns. The study results found that long-term yields have a significant adverse effect on stock returns because state bonds are investment instruments with a lower risk than stocks, so the higher the interest rate on state bonds, the more investors will shift their capital from stocks to bonds. It can be said that the higher the interest rate on government bonds, the stock returns will decrease. The study results found that inflation has no relationship to stock returns because inflation is a macroeconomic problem in which prices increase in general and sustainably as a form of economic growth. In addition, inflation is more directed to macroeconomic fundamentals than companies. In addition, higher or lower inflation will be followed in line with changes in prices and production costs to ensure that the company does not suffer losses. That way, inflation does not affect stock returns.

This study has limitations in the number of observations that are not many due to the sample requirements so that future researchers are expected to be able to research by adding more samples so that they are more accurate in the same research topic.

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