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# Company Performance And Stock Returns In Indonesia Telecommunication Companies

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**Abstract**
This study aimed to analyze the company performance on stock return in Telecommunication Companies of Indonesia from 2012 until 2020. The company performance consists of profitability ratio as proxied by return on equity, liquidity ratio as proxied by current ratio, solvency ratio as proxied by debt to equity, activity ratio as proxied by total asset turn over, and market ratio proxied by price book value. Data were collected from the Indonesia Stock Exchange website and each related company's website.

This study was conducted by a quantitative study using unbalanced panel data regression analysis. This study analyzed a new balanced panel data of 104 firm-year observations from 12 Telecommunication Companies of Indonesia.

The results show that profitability ratio, liquidity ratio, solvency ratio, and activity ratio failed to affect stock returns significantly. Meanwhile, the market ratio has a significant positive effect on stock return. This study can be used as an investment guide for both individual and corporate investors. The study contains the most important fundamental analysis related to the company's financial performance, based on the company's price book value.

**Keywords:** company performance; stock returns

## Research Background

In the last decade, information and communication technology development worldwide has occurred very fast and was rarely imagined before. In addition, the occurrence of the Covid-19 pandemic, which began in early 2020, has drastically changed the interactions of social, cultural, and economical in human life worldwide. During the Covid-19 pandemic, people must interact by implementing distance restrictions and complying with health protocols. It impacts people's demands to be more frequent, accustomed, and adaptive in digitally using information and communication technology. Therefore, it is shown by the use of information and communication technology which is increasingly massive and touches almost every aspect of human life (Putra, 2014).

The use of information technology also encourages the communication industry technology or telecommunications companies to develop their business rapidly, especially digital technology service companies (Wijaya, 2008). In addition, many companies in different industries are currently accelerating the digital technology transformation process to conduct and maintain their business in the new normal era. Digital technologies have been adopted include the internet of things (IoT) with 5G telecommunications networks, Big Data analytics, artificial intelligence (AI) using deep learning, and blockchain technology. The use of digital technology is based on high-speed internet data access services, which are generally provided by telecommunication companies. Therefore, the telecommunication company in the Covid-19 pandemic is one that still has good financial resilience with very promising financial performance.

In the context of Indonesia, telecommunications companies have more focused on providing telecommunications services in the form of internet access and cellular telephones. It is in line with the increase of demand for internet access in all industrial and service sectors, as well as the changing culture of public communication in using cellular phones. The market potential for cellular phones and internet access in Indonesia is huge. This potential is supported by a large population, low cellular phone penetration rate, and lifestyle changes requiring flexibility and cellular communication facilities. The number of cellular phone users and internet access users is not limited to certain classes but is almost evenly distributed at various economic levels and people's ages (Wijaya, 2008).

Referring to the law of economics, along with the high demand for internet and cellular telephone services during the Covid-19 pandemic, of course, this will also impact increasing revenue for telecommunication companies. It is supported by data revealing that PT Telkom Indonesia Tbk, PT Indosat Tbk, and PT XL respectively showed an increase in revenue in 2020 of 0.7%, 9.4%, and 9% compared to the revenue in 2019 (https://money.kompas.com, 2021/04/29). The improved performance of telecommunications companies is one of the two business sectors considered capable of growing well during the Covid 19 pandemic. Financial performance that shows positive results is in the health sector companies.

However, the internal performance of PT Telkom Indonesia has not shown a good result in the market performance where the share price decreased significantly by -31.6%. The same thing happened to the stock market performance in other telecommunications companies, which are the stock price of PT Indosat Tbk and PT XL Tbk fell by -31.6% and -35.5%, respectively (www.liputan6.com, 1/10/2020). The impact of the decline in the stock prices will undoubtedly result in the performance of investors regarding the stock return will decrease as well.

The investor will certainly consider choosing the stocks expected to have optimal stock returns. Every investor wants to get positive results from the investment made in the form of investment returns. The future benefits received indicate that the investment is not a wasted action (Jogiyanto, 2012). Therefore, potential investors will seek information on the company's performance through published financial reports. Investors will decide to buy or sell shares by analyzing the company's performance. Hence, investors who have long-term and short-term goals will monitor the development of fluctuations occurring in the capital market. Investors will generally buy shares when the price is low and sell the shares when the price has gone up or exceeds the purchase price.

Several financial ratios can be used to assess the company's financial performance, including profitability ratio, liquidity ratio, solvency ratio, activity ratio, and market ratio. However, the analysis of financial ratios is one of the information that can help companies measure their performance and other information provided, such as sustainability and management information. Those additional data sources can be employed to make better and more optimal information for the investors. That information can be used as a benchmark in making investment decisions, for instance, the decision in a crisis or other failure economic condition.

Many studies have been conducted on the effect of company performance on stock returns in Indonesia. The results show inconsistency. In previous research conducted by Ramlah (2021), Inne Afinindy and Budiyanto (2017), and Susanna Hutabarat (2013), it is found that the profitability ratio has a significant positive effect on stock returns. However, different results are shown in research conducted by Firmansyah (2018), where the profitability ratio proxied by return on assets (ROA) has a negative effect on stock returns on LQ. Likewise, research conducted by Rizqi Aning Tyas and Rishi Septa Saputra (2016) proves that the profitability ratio proxied by earnings per share (EPS) has a negative effect on stock returns. Then, Suriani Ginting (2012) and Raisa Fitri (2018) found that the profitability ratio does not affect stock returns.

In previous research on the effect of the liquidity ratio on stock returns in telecommunications companies by Prabawa and Lukiastuti (2017), Hasanudin et al. (2020), Damayanti (2019) showed that the current ratio has no significant negative effect on stock returns. Meanwhile, research by Noerwida & Norita (2016) found that the liquidity ratio has a significant negative effect on stock returns in telecommunications companies. In contrast, the research of Christian et al. (2020) and Gharaibeh (2014) show that the liquidity ratio has a significant positive effect on stock returns.

Likewise, research linking the solvency ratio to stock returns found different results. According to research by Afinindy & Budiyanto (2017), and Noerwida & Norita (2016), they found that DER (debt to equity ratio) has no significant effect on stock returns of telecommunications companies. Meanwhile, studies by Hasanudin et al. (2020), and Fitriana et al. (2016) show that DER has a significant negative effect on stock returns in Indonesia telecommunications sub-sector service companies. On the other hand, research by Raningsih & Putra (2015), Pitselis (2009), and Wingsih (2013) found that the leverage ratio has a significant positive effect on stock returns.

Research conducted by Mayasari and Anggraini (2016), Effendi and Suwardi (2017), and Yuliantari and Sujana (2014) show that changes in the value of Total Assets Turnover have a positive effect on stock returns. On the other hand, research conducted by Noerwida & Norita (2016) and Hutabarat (2013) shows that the activity ratio has a significant negative effect on stock returns in telecommunications companies. Meanwhile, the research results on wholesale companies listed on the Indonesia Stock Exchange show that the activity ratio does not affect stock returns (Antara et al., 2014).

The results of research on market ratios to stock returns have been carried out by Prasetyo (2000), Nasihah (2017), revealing that Price Book Value (PBV) does not affect stock returns. In contrast, the research conducted by D. Arista (2012), Natarsyah (2000), Suwandi (2003), Akbar (2015), Mayasari and Anggraini (2016) shows that PBV had a significant positive effect on the stock returns. However, research by Ratnasari (2003) shows that PBV has a negative effect on stock returns.

This study still needs further investigation due to the phenomena mentioned earlier and inconsistent previous research. This study examines the determinant factors of stock returns in telecommunication companies listed on the Indonesia Stock Exchange from 2012 to 2020. This study investigated the influence of company performance, namely profitability ratio, liquidity ratio, solvency ratio, activity ratio, and market ratio, on the stock returns.

## Research Framework and Hypothesis Development.

### The influence of profitability ratio on stock returns

Return on Equity is one of the proxies of the measured profitability ratio dividing net income with the total capital owned by the company. Companies with a high-profit level are indicated to have a more significant internal funding source than external funding. It shows that the company has sufficient ability to carry out its company activities.

Therefore, investors do not invest their money in companies that run their operations from internal funding. As a result, it causes the company's stock price to increase in the future. Increasing stock prices will also increase the stock returns owned by investors.

Thus, this study predicts that profitability has a positive effect on stock returns. This statement is supported by previous research conducted by Ramlah (2021), Inne Afinindy and Budiyanto (2017), and Kamar (2017), showing that the profitability ratio proxied by Return on Equity has a significant positive effect on stock returns. Hence, the hypothesis is stated below:
$H_1$: the profitability ratio has a positive effect on stock returns.

### The influence of liquidity ratio on stock returns

The current ratio is a proxy for the liquidity ratio, which describes the company's ability to pay short-term obligations that are due. The current ratio is measured by comparing current assets and current liabilities.

A high current ratio does not indicate good performance for the company. It happens because of the large number of idle cash funds, which indicates that the company's performance in managing its finances is not good enough. From the investor's point of view, this condition shows that the company has failed to find an effort to increase revenue, so it is predicted that the reward that investors will receive will decrease.

It decreases investor motivation in buying company shares so that stock prices fall and stock returns decrease. However, from the creditor's point of view, a high current ratio indicates that the company can meet its current debt payments. On the other hand, if the current ratio is low, it indicates a problem that the company cannot meet its short-term obligations (Thrisye and Simu, 2013).

Therefore, according to research by Prabawa & Lukiastuti (2017), Saerang et al. (2014), Noerwida & Norita (2016), Hertina & Mohamad Bayu Herdiawan Hidayat (2019), Stefano (2015), the current ratio has a negative effect on stock returns. Hence, the hypothesis is stated below:
$H_2$: the liquidity ratio has a negative effect on stock returns.

**The influence of solvency ratio on stock returns**
The debt to equity ratio (DER) is used as a solvency ratio proxy to determine how much the company is financed by debt from outside parties. Companies with high solvency ratios tend to have a low ability to fulfill their obligations for credit analysis (Pinanditha & Suryantini, 2016).

The higher DER indicates that the capital structure utilizes debt more than its capital. It will reduce the interest of investors to invest in the company. Investors do not want to take significant risks because the company has large debt obligations that will ultimately reduce share prices, impacting decreasing returns received by shareholders (Fitriana et al., 2016).

This statement is supported by previous research conducted by Noerwida & Norita (2016), and Hasanudin et al. (2020), showing that DER negatively affects stock returns. Hence, the hypothesis is stated below:
$H_3$: the solvency ratio has a negative effect on stock returns.

**The influence of activity ratio on stock returns**
Total asset turnover is a proxy for the activity ratio to measure efficiency level in utilizing the company's resources. In addition, this ratio assesses the company's ability to carry out its activities as measured by a comparison between sales to total assets. This ratio describes the rotation speed of total assets in a certain period (Riberu & Sandari, 2017). High total asset turnover indicates that the company is efficient. It is shown by the company's high sales that can generate high company profits. Hence, the increase in sales and the company's profits will affect the investors' interest in buying the company's shares. It will affect the increase of stock price and the increase of the company's stock return.

This statement is supported by previous research from Mayasari & Anggraini (2016), Effendi & Hermanto (2017), Subing et al. (2019), Cooper et al. (2014), and Prabawa & Lukiastuti (2015), proving that the activity ratio has a positive effect on stock returns. Hence, the hypothesis is stated below:
$H_4$: the activity ratio has a positive effect on stock returns.

**The influence of market ratio on stock returns**
The price-book value (PBV) is a proxy of the market ratio, calculated from comparing the stock market price and its book value. The higher the PBV value, the higher the company will be

valued by investors compared to the funds invested in the company (Ang, 1997). Investors prefer companies that are considered capable of increasing their value. It makes the demand for shares of a company increase to have a positive effect on stock prices. If the stock price increases, stock returns are also expected to increase.

This statement is supported by previous research conducted by D. Arista (2012), Natarsyah & Dana (2000), Suwandi (2003), Akbar & Herianingrum (2015), Mayasari and Anggraini (2016), revealing that PBV has a positive effect on significant to the return. Hence, the hypothesis is stated below:
$H_5$: the market ratio has a positive effect on stock returns.

## Research Methodology

### Data and variables

This research population is the company financial statements consisting of 126 financial statements from 14 Telecommunication companies of Indonesia listed on the Indonesia Stock Exchange from 2012 to 2020. However, two companies have incomplete data across those periods, and two companies started listed in 2014. Therefore, 22 firm-year observations were excluded, and only 104 financial statements as final data samples were derived from 12 companies. Moreover, data were collected from the Indonesia Stock Exchange (IDX) website (www.idx.co.id) and the companies' websites.

**Table 1: Telecommunication Company Data**

| No | Name and Codes | Observable Years Numbers |
|---|---|---|
| 1 | PT Indosat Tbk. (ISAT) | 9 |
| 2 | XL Axiata Tbk (XL) | 9 |
| 3 | Visi Telekomunikasi Infrastruktur (GOLD) | 9 |
| 4 | PT Tiphone Mobile Indonesia Tbk (TELE) | 9 |
| 5 | Telkom Indonesia (TLKM) | 9 |
| 6 | PT Link Net Tbk (LINK) | 7 |
| 7 | PT Smartfren Telekom Tbk (FREN) | 9 |
| 8 | Tower Bersama Group (TBIG) | 9 |
| 9 | PT Sarana Menara Nusantara (TOWR) | 9 |
| 10 | PT Centratama Telekomunikasi Indonesia, Tbk (CENT) | 9 |
| 11 | PT Bali Towerindo Sentra Tbk. (BALI) | 7 |
| 12 | PT. Inti Bangun Sejahtera (IBST) | 9 |

This study consists of one dependent variable and five independent variables. The dependent variable is stock returns, measured by the change in the stock price over time divided by the initial stock price. Furthermore, independent variables consist of the profitability ratio (X1), which is measured by the return on equity ratio (ROE) (the ratio of net income relative to the shareholders' equity), liquidity ratio (X2), which is proxied by the current ratio (CR) (the ratio of current assets relative to current liability), solvency ratio (X3), which is proxied by the debt to equity ratio (DER) (the ratio of total debt relative to total equity), activity ratio (X4), which is proxied by sales turnover ratio (ST) (the ratio of sales relative to total assets), and market ratio (X5), which is proxied by price-book value ratio (PBV) (the ratio of market stock price per share relative to book value of stock per share).

This study uses panel data regression analysis to determine the impact of company performance on stock returns. In data panel regression analysis, the model test of common effects, fixed effects, and random effects is needed to be conducted. Park (2011) stated that a fixed effect model is measured by the F test to determine the variation of intercepts across groups or periods. In comparison, the Lagrange multiplier (LM) test was carried out to check whether a random effect model occurred (Breusch and Pagan, 1980). If the F test result shows that the null hypothesis is not rejected in either test, the pooled OLS is chosen. Then, the Hausman specification test was conducted to determine whether a random effect or the fixed effect model counterpart (Hausman, 1978). The random effect model will be chosen when the null hypothesis is not rejected if the individual effects are uncorrelated with the other regressors.

## Finding and Discussions

### Statistic Descriptive

**Table 2: Statistic Descriptive**

| | Y | X1 | X2 | X3 | X4 | X5 |
|---|---|---|---|---|---|---|
| Mean | 0.160185 | 0.131204 | 1.445093 | 1.741759 | 0.723704 | 13.39380 |
| Median | 0.040000 | 0.105000 | 0.745000 | 1.190000 | 0.255000 | 2.865000 |
| Maximum | 10.10000 | 3.390000 | 9.040000 | 13.54000 | 12.93000 | 456.2700 |
| Minimum | -0.880000 | -0.830000 | 0.050000 | -2.800000 | 0.040000 | -1.330000 |
| Std. Dev. | 1.101160 | 0.390271 | 1.722399 | 2.149316 | 1.711401 | 54.65547 |
| Skewness | 7.117559 | 5.372838 | 2.189528 | 3.200658 | 5.153450 | 6.984595 |
| Kurtosis | 63.39825 | 46.60087 | 7.427877 | 17.59166 | 32.42624 | 52.52514 |
| | | | | | | |
| Jarque-Bera | 17327.64 | 9074.274 | 174.5200 | 1142.520 | 4374.610 | 11915.45 |
| Probability | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 |
| | | | | | | |
| Sum | 17.30000 | 14.17000 | 156.0700 | 188.1100 | 78.16000 | 1446.530 |
| Sum Sq. Dev. | 129.7432 | 16.29734 | 317.4323 | 494.2930 | 313.3917 | 319632.6 |
| | | | | | | |
| Observations | 104 | 104 | 104 | 104 | 104 | 104 |

Table 2 inform that the lowest stock returns value in telecommunications companies during 2012 - 2020 was -0.88 at PT Sarana Menara Nusantara Tbk in 2013. In contrast, the highest stock return value occurred in 2012 at PT Centratama Telekomunikasi Indonesia Tbk with a value of 10.10. Meanwhile, the average value of stock returns in telecommunications companies is 0.16, with a standard deviation of 1.10. A standard deviation value higher than the mean indicates a significant variation in stock returns.

The lowest profitability ratio of telecommunication companies during 2012 - 2020 was -0.83 at PT. Smartfren Tbk in 2013. While the highest profitability ratio occurred in 2019 at PT. Tiphone Mobile Indonesia Tbk with a value of 3.39. Meanwhile, the average value of the profitability ratio in telecommunications companies is 0.13, with a standard deviation of 0.39. A standard deviation value higher than the mean indicates a significant variation in the profitability ratio.

The lowest liquidity ratio in telecommunication companies during 2012 - 2020 occurred in 2020 at PT. Tiphone Mobile Indonesia Tbk with a value of 0.05. In comparison, the highest level of liquidity ratio occurred in 2014 at PT. Vision Telecommunications Tbk with a value of 9.04. Meanwhile, the average value of the liquidity ratio in telecommunications companies is 1.44, with a standard deviation of 1.72. A standard deviation value higher than the mean indicates a significant variation in the liquidity ratio.
The lowest solvency ratio of telecommunication companies during 2012 - 2020 was -2.80 at PT. Tiphone Mobile Indonesia Tbk in 2019. In comparison, the highest solvency ratio occurred in 2016 at PT. Tower Bersama Group Tbk with a value of 13.54. Meanwhile, the average value of the solvency ratio in telecommunications companies is 1.74, with a standard deviation of 2.14. A standard deviation value higher than the mean indicates a significant variation in the solvency ratio.

The lowest activity ratio in telecommunication companies throughout 2012 – 2020 was 0.04 at PT. Centratama Telekomunikasi Indonesia Tbk in 2013. In contrast, the highest activity ratio occurred in 2020 at PT. Tiphone Mobile Indonesia Tbk with a value of 12.93. Meanwhile, the average value of the activity ratio in telecommunications companies is 0.72, with a standard deviation of 1.71. A standard deviation value higher than the mean indicates a significant variation in the activity ratio.

The lowest market value ratio of telecommunication companies during 2012 – 2020 was -1.33 at PT. Tiphone Mobile Indonesia Tbk in 2019. In contrast, the highest market value ratio occurred in 2012 at PT. Centratama Telekomunikasi Indonesia Tbk with a value of 456.27. Meanwhile, the average value of the market value ratio in telecommunications companies is 13.39, with a standard deviation of 54.65. A standard deviation value higher than the mean indicates a significant variation in the market value ratio.

**Research Analysis**
In order to determine the most appropriate type of model in panel data analysis based on the Chow test through the likelihood ratio test, it can be seen that the probability value of the Cross Section is 0.0542 > 0.05. Then, the correct model is the Common Effect Model (see Table 3). According to Park (2011), when the Chow test results show that the most appropriate model is the common effect model, there is no need to conduct further tests using the Hausman and Lagrange multiplier (LM) test.

**Table 3: Chow Test**

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 1.628466 | (11,91) | 0.1038 |
| Cross-section Chi-square | 19.406636 | 11 | **0.0542** |

Furthermore, the results of the multicollinearity test show that all variables have a VIF value < 10. It means that in this study, there is no multicollinearity in the panel data regression model. Likewise, the results of the heteroscedasticity test show the output of the chi-square probability value of 0.7044. Therefore, the probability value is 0.7044 > 0.05, indicating that the regression model is homoscedastic. So, there is no heteroscedasticity in the model.

Table 4 shows that the F statistic value was 28.3050, and the significance with Prob (F-statistic) was 0.000000. It means that the profitability ratio, liquidity ratio, solvency ratio, activity ratio, and market ratio simultaneously have a significant effect on stock return. The R2 and adjusted R2 values were 0.581153 and 0.560621. The R2 value indicates that the dependent variable is explained by 58.12 % of the independent variables' variation, while the other 41.88% variation of the independent variables is not examined in this study.

**Table 4: Panel Data Regression Analysis**

Dependent Variable: Y
Method: Panel Least Squares
Date: 01/17/22 Time: 16:52
Sample: 2012 2020
Periods included: 9
Cross-sections included: 12
Total panel (balanced) observations: 104

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.056657 | 0.124826 | 0.453884 | 0.6509 |
| ROE ($X_1$) | -0.243054 | 0.214929 | -1.130856 | 0.2608 |
| CR ($X_2$) | 0.010740 | 0.042493 | 0.252740 | 0.8010 |
| DER ($X_3$) | -0.043122 | 0.034926 | -1.234653 | 0.2198 |
| ST ($X_4$) | -0.010500 | 0.050907 | -0.206268 | 0.8370 |
| PBV ($X_5$) | 0.015127 | 0.001297 | 11.66408 | 0.0000 |

| | | | |
|---|---|---|---|
| R-squared | 0.581153 | Mean dependent var | 0.160185 |
| Adjusted R-squared | 0.560621 | S.D. dependent var | 1.101160 |
| S.E. of regression | 0.729911 | Akaike info criterion | 2.262165 |

| | | | |
|---|---|---|---|
| Sum squared resid | 54.34259 | Schwarz criterion | 2.411173 |
| Log likelihood | -116.1569 | Hannan-Quinn criter. | 2.322582 |
| F-statistic | 28.30510 | Durbin-Watson stat | 1.519830 |
| Prob(F-statistic) | 0.000000 | | |

Table 4 shows the panel data regression equation model with a common effect model with the form of equation as follows:

$$\mathbf{SR_{i.t} = 0.056657 - 0.243054ROE_{\ i.t} + 0.01074CR_{\ i.t} - 0.04312DER_{\ i.t} - 0.01050ST_{i.t} + 0.01513PB_{\ i.t} + \varepsilon_{i.t}}$$

Table 4 informs that ROE, DER, and ST coefficient had a negative value of -0.2430, 0.0431, and -0.01050 with the probability value of 0.2608, 0.2198, and 0.8370, respectively. It means that ROE, DER, and ST variables have no significant negative effect on stock returns. Hence, the first, third, and fourth hypotheses were rejected. Then, the coefficient of CR has a positive value of -0.010740 with a probability value of 0.8010, suggesting that the CR has no significant positive effect on stock returns. It means that CR variables have no significant positive effect on stock returns. Furthermore, the PBV variable coefficient has a positive value of 0.01512. The probability value was 0.0000, which means that the PBV variables significantly and positively affect the stock return.

## Discussions

### The influence of profitability ratio on stock returns

This study shows that the profitability ratio as proxied by Return on Equity does not significantly affect a negative relationship towards stock returns in Indonesian telecommunications companies. This study proves that the profitability ratio does not affect the increase and fall of the company's stock returns. Other factors from outside research variables influence the rise and fall of stock returns. For example, at PT Indosat Tbk, the factor of a corporate merger has increased stock prices and returns or enhanced PT XL's net profit through foreign exchange gains and tower rental sales, which is not derived from the company's organic income.

This study is not in line with previous research conducted by Ramlah (2021) and Inne Afinindy and Budiyanto (2017), which stated that return on equity has a significant effect in a positive direction on stock returns. However, this study is in line with research by Pande Widya and Nyoman Abundanti (2018), which states that return on equity negatively affects stock returns.

### The influence of liquidity ratio on stock returns

The study shows that the liquidity ratio proxied by the current ratio does not have a significant effect with a positive relationship towards stock returns in telecommunications companies of Indonesia. This study indicates that the liquidity ratio proxied by the current ratio has no effect on stock returns in Indonesian telecommunication companies listed.

This study proves that the liquidity ratio does not affect the increase and fall of the company's stock returns. A high current ratio value indicates that the availability of current assets to pay off current liabilities is also high. Meanwhile, current assets contain cash and cash equivalents, receivables, inventories, and marketable securities. However, a high current ratio does not necessarily represent that the company plans to pay a high dividend for its investors. Investors suspect that the high availability of cash is related to the high short-term debt that the company must pay off immediately.

The results of this study are in line with previous research conducted by Erari (2014), Basalama et al. (2017), Tumonggor et al. (2017), Haryani & Priantinah (2018), Asmi (2014), and Supriantikasari & Utami (2019) which stated that the current ratio does not affect stock returns. However, the results of this study are not in line with research conducted by Aryanti et al. (2016), which states that the current ratio has a negative and significant effect on stock returns.

**The influence of solvency ratio on stock returns**

The study found that the solvency ratio as proxied by debt-to-equity ratio has no significant effect with a negative relationship towards stock returns in telecommunications companies of Indonesia. In this study, the solvency ratio has no effect on stock returns due to investors who ignore the company's capital capacity in carrying out company operations. Investors look more at the company's ability to generate profits in making their investments. The lower the debt to equity ratio, the smaller the company's dependence on outside parties so that the company's risk level is getting smaller. DER that is too high has a destructive impact on company performance. It shows that the higher the level of debt, the greater the company's fixed expenses, thereby reducing profits. Then, it will increase the investment risk to the shareholders (Erari, 2014).

The result of this study supports research conducted by Mangantar (2020), Asmi (2014), Dewi et al. (2020), Husein (2015), Karim (2015), and Absari (2012), with results explaining that the solvency ratio has no effect to stock returns. However, this study's results contradict the research conducted by Dewi (2016), which states that the solvency ratio has a negative and significant effect on the company's stock returns.

**The influence of activity ratio on stock returns**

The study found that the activity ratio as proxied by sales return over ratio has an insignificant negative effect towards stock returns in Indonesian telecommunications companies. This result rejects the hypothesis that a high activity ratio will increase stock returns. The reason is that the company's ability is less than optimal in selling their products quickly. In addition, an insignificant increase in asset turnover does not guarantee an increase in profits due to increased marketing costs and the inflation rate that boosts the asset becomes even more expensive. It does not affect the increase in company profits in the future. It triggers a decrease in investor interest and interest in the traded shares. The weaker investor reaction to stock will affect the lower fluctuations in stock demand. In the end, it affects prices and stock returns that will also decline.

The results of this study are supported by previous research conducted by Roslianti (2014), Azzahra (2016), Pamungkas (2016), Abdullah (2016), Thrisye (2013), and Andansari (2016), which stated that the activity ratio has no effect on the company's stock returns.

**The influence of market ratio on stock returns**

This study proves that the market ratio as proxied by the price-book value ratio has a significant positive effect on stock returns in telecommunications companies of Indonesia. The higher the price book value of a company, the higher the company's stock return, and vice versa. The higher the price-book value ratio indicates that the company has created value for shareholders. As a result, many investors are interested in investing their funds to raise, and stock returns will also increase.

The results of the study support the research of Akbar (2015), Asmi (2014), Andansari (2016), and Ristyawan (2019), explaining that the market value ratio proxied by PBV has a positive and significant effect on the company's stock returns.

## Conclusion

This study has broadened the literature on stock returns factors in telecommunication companies of Indonesia. This study suggests that only the market ratio has a significant positive effect on stock returns. It means that the price-book value plays a dominant factor for investors deciding whether they will sell or buy the stocks to invest, divest their money, or hold up the stock in their portfolio. Hence, the company still has to impress its potential investors by concerning its operation to create value for the shareholders. Moreover, companies' internal factors have to be strengthened to anticipate fluctuation in macroeconomic and other systematic risks.

This research can be used as an investment guide for both individual and corporate investors. The study contains the most important fundamental analysis related to the company's financial performance, based on the company's PBV. However, this study still has several limitations, including the limited sample of companies, which only amounted to 12 companies for nine years. In addition, the sample companies in this study are specific to telecommunications companies listed on the Indonesia Stock Exchange. As a result, the sample data may not reflect the company's actual market conditions in the long term.

In sharpening and expanding the research results, further research can use other types of companies with a larger market capitalization value. In addition, further research can also add other variables such as the level of income from foreign exchange differences, merger factors, company size, debt to asset ratio, economic growth, and/or interest rates/inflation.

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