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THE EFFECT OF RETURN ON ASSET, CURRENT RATIO, PRICE TO EARNING RATIO, AND STOCK PRICE ON SUSTAINABLE GROWTH RATE OF FIRMS IN BUSINESS-27 INDEX AND SRI KEHATI INDEX IN INDONESIA STOCK EXCHANGE

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Abstract: *The objectives of this research are to examine the effect of current ratio, return on asset, price to earning ratio, and stock priceon the sustainable growth rate of the firms in Indonesia StockExchange. We also compare the mean value of dividend payout ratio, sustainable growth rate, return on asset,current ratio, price to earning ratio, and stockprice of firms listed in Sri Kehati Index and Business 27 Index.*

Our research uses two indices that consists of Kehati Sustainable and Responsible Investment Index (Sri-Kehati) and Business 27 Index. Sri Kehati Index represented the sustainable firm, and Business 27 Index as a benchmark index. Data have been collected from the Indonesia Stock Exchange within period 2011-2014. We use regression test and t-test to analyze the data. Regressionanalysis is to test the hypotheses 1, 2, 3 and 4, and for testing hypothesis 5 we use t-test to determine whether there is significant difference between mean value of variable of two indices.

From the regression test and t-test we can conclude that for firms listed in Sri Kehati Index, stock price has positive and significant effect on Sustainable Growth Rate (SGR), Return on Asset (ROA) has negative and significant effect on SGR, price to earning ratio(PER) has negative insignificant effect on SGR, and current ratio (CR) has positive insignificant effect on SGR. For firms listed in Business 27 Index, we can show that the stock price has positive and significant effect on SGR, ROA has positive insignificant effect on SGR. PER has negative insignificant effect on SGR, and CR has negative significant effect on SGR. The mean value of CR of firms in Sri-Kehati Index and mean value of firms in Business 27 Index are significantly different, whereas the mean value of ROA, PER, and SGR of firms in Sri-Kehati Index and mean value of firms in Business 27 Index are insignificantly different.

Keywords : *Return on Asset, Price to Earning Ratio, Current Ratio, Sustainable Growth Rate, and Stock Price*

INTRODUCTION

Company's growth objectives and its financial policies should consistent and mutually feasible. Thesteps a company can take to balance its growth targets and its sustainable growth rate are offeringthe new equity shares, reducing the dividend payout ratio of the firm, increasing its leverage, or making improvement in operating performance. Bydecreasing the dividend payout ratio or reducing the growth rate to a level which is appropriate with the financial targets of the firms suggested as the only viable way for a number of firms.

Dividend policy is concerned with the firm's financial policies regarding the payment of a cash dividend at the present or to pay an increased dividend or even decreased dividend at a later stage. Whether to distribute dividends (Aswath Damodaran) and what amount, are determined mainly on the basis of the excess cash of the company and influenced by the long-term earning power of the company.

According to the residualdividendmodel, for companies in profitable and mature industries where few growth opportunities exist, typically will distribute a large percentage of their cash to shareholders, to attract investor clienteles who prefer high dividends. Other companies in growth industries and generate little or no excess cash where many good investment opportunities exist will generally distribute little or no cash to shareholders but enjoy rising stock prices, to attract investors who prefer high capital gains.

By testing and analyzing sustainable growth, firm can see immediately whether the firm's growth objectives and its financial policies are the appropriate mix. Furthermore,thefinancial manager is interested in profitability ratios toprovide some assurance of the long-run viability of the firm, and liquidity ratios to analyze if the firm is technically solvent in the short-run.However, many firms with highprofitabilityare growing at a rate that cannot be supported by internal sources of funds.

Therefore, through this research, we examine to what extent the effect of current ratio as one of liquidity ratios, profitability ratio focus on the firm’s earnings (return on asset), price to earning ratio, and stock priceon the sustainable growth rate of the firms, in Indonesia stock exchange. We also compare the mean value of sustainable growth rate, return on asset,current ratio, price earning ratio, stockprice, and dividend payout ratio of the firms listed in Sri Kehati Index and Business 27 Index.

The rest of this paper is structured in 5 sections. Section 2 reviews relevant literature on the theories of sustainable growth rate and residual dividend model,explains some of the empirical findings of other relevant studies, conceptual framework and hypotheses based on these studies. Section 3 discusses the research methodology and data used for the study. Sections 4 and 5 present the study results and conclusions respectively.

LITERATURE REVIEW

1. Theory

Sustainable Growth Rate

A sustainable growth rate is the maximum percentage growth in sales that can occur consistent with target operating, debt, and dividend ratios. With sustainable growth modeling, one can determine whether the sales growth objectives of the firm are consistent with its operating characteristics and its financial objectives(Van Horne, 2005).For those companies that want to maintain a target payout ratio and capital structure without issuing new equity, sustainable growth is defined as the annual percentage of increase in sales that is consistent with the firm's established financial policies. If sales grow at less than this rate, the firm will be able to increase its dividend, reduce its leverage or build up liquid assets (Higgins, 1977).

The Residual Dividend Model

In deciding how much cash to distribute to shareholders, two points shouldbe consideredby the firm,themain objective is to maximize shareholder valueand the firm’s cash flows really belong to its shareholders.Therefore,firmcan retain net income only if they can reinvest those earnings and generate higher ratesof return than shareholders can earn themselves. On the other hand, the cost of internal equity (retained earnings) is lower than externalequity (new common stock), so if good investments are exist, it is better tofinance investments with internal equity (retained earnings) than with external equity (new common stock).

Dividend payouts and dividend yields for large corporations fluctuated considerably. Generally, firms in stable, cash-producing industries tend to pay pay higher dividends, whereas companies in rapidly growing industries tend to pay lower dividends. Average dividends also differ significantly across countries. Higher dividend payout ratios in some countries can be partially influenced by lower tax rates on earnings distributed as cash dividends than applicable rates on reinvested income.

Therefore, under the residual model dividends the dividend payout ratiovariations would result from fluctuations in investment opportunities and earnings. Because investment opportunities and earningswill surely vary from year to year, highly unstable dividends would result asstrict adherence to the residual dividendpolicy.

2. Previous Research Findings

These are several research findings related to our research. A study by Eugene Fama and Kenneth French (2000) shows that the percent of companies in paying cash dividends falls from 66.5 in 1978 to 20.8 in 1999. The decline is in partcaused by the changing characteristics of publicly traded companies. Fed by new lists, the population of publicly traded companiesmoves increasingly toward small companies with low profitability and strong growth opportunities, characteristics typical of companies that have never paid dividends. They also explain that controlling for characteristics, firms become less likely to pay dividends. This lower propensity to pay is at least as important as changing characteristics in the declining occurrence of dividend payers.

Research of Rahim and Saad (2014) concluded that there is relationship between ROA and SGR of 229 companies listed in Bursa Malaysia in the ASEAN, although the capital structure of companies have different value for each country.

Inthe study of Amouzesh (2011) regarding the level of SGR and firm performance with 54 sample companies listed in Iranian Financial Market during the year 2009 indicated that the SGR has a relationship with the level of ROA and Price to Book Ratio while the deviation of actual growth rate of the SGR has no association with current and acid ratios.

Results of research conducted by Reddy and Gordon (2012), concluded that there are differences in outcomes occurred between the two countries. In Australia, the implementation of the principle of sustainability has a significant impact on the financial performance of the company. But on the contrary,for the company in New Zealand, that there is not a significant effect ofthe implementation of the principle of sustainability on the financial performance.

Research of Kijewska, A. (2016) was to show that the growth of the company cannot constitute a goal in itself. It must be confronted with the actual capabilities of the growth of the company and the conditions for obtaining any funds that could finance this growth. The analysis was conducted on the example of two companies from the mining and metallurgical sector listed on the Stock Exchange in Warsaw. The result shown that the SGR

decreases (in case of the mining company to below zero). He explained that if market conditions will deteriorate, in mining company it should be implemented rescue plans. If commodity prices start to rise, according to the precepts of sustainable growth, the metallurgical company have to in a careful and balanced way plan their growth.

3. Conceptual Framework

As the conceptual framework for testing the hypotheses, we draw it as follows :

4. Hypothesis

In this research, we test the following hypotheses :

1. There is a significant effect of stock price on sustainable growth rate of companies listed in the Sri Kehati Index and Business 27 Index.
2. There is a significant effect of ROA on sustainable growth rate of companies listed in the Sri Kehati Index and Business 27 Index.
3. There is a significant effect of PER on sustainable growth rate of companies listed in the Sri Kehati Index and Business 27 Index.
4. There is a significant effect of CR on sustainable growth rate of companies listed in the Sri Kehati Index and Business 27 Index.
5. There is a significant difference of mean value of stock price, ROA, PER, CR, and sustainable growth rate of companies that listed in the Sri Kehati Index and Business 27 Index.

RESEARCH METHODOLOGY

1. Population and Sample

Our research uses two indicesthat consists of Kehati Sustainable and Responsible Investment Index (SRI-Kehati) and Business 27 Index. Sri Kehati Index represented the sustainable index, and Business 27 Index as a benchmark index.Data have been collected from the Indonesia Stock Exchange within period 2011-2014. The sample of this research listed on the table below:

Table 1 Sample of Research

Business-27 Index	Sri-KehatiIndex
Adaro Energy, Tbk. (ADRO)	Adhi Karya (Persero),Tbk. (ADHI)
AKR Corporindo, Tbk. (AKRA)	Gajah Tunggal, Tbk. (GJTL)
Charoen Pokphand Indonesia, Tbk. (CPIN)	Indofood Sukses Makmur, Tbk. (INDF)
Gudang Garam, Tbk. (GGRM)	Japfa Confeed Indonesia, Tbk. (JPFA)
Vale Indonesia	Jasa Marga Persero, Tbk, (JSMR)
Indocement Tunggal Prakarsa, Tbk. (INTP)	Holcim Indonesia, Tbk. (SMCB)
Media Nusantara Citra,Tbk. (MNCN)	Timah Persero, Tbk (TINS)
Surya Citra Media,Tbk. (SCMA)	Unilever Indonesia, Tbk. (UNVR)

2. Variable Measurement

In this study, the dependent variable is sustainable growth rate, and the proxies of independent variables are return on asset, price to earning ratio, and current ratio as explained in Brigham and Houston (2007), and stock price.

A. Price to Earnings Ratio (PER)

The ratio of the priceper share to earningsper share, it shows thedollar amount investors will pay for $1 ofcurrent earnings.Price to earning ratio is higher for companies with strong growthprospects and relatively little risk. Ifprice to earning ratio is below the average for other companies in the same industry, so this suggests that the company is regarded as beingsomewhat riskier than most, as having poor growth prospects, or both.

B. Return on Asset (ROA)

This ratio is calculated by dividing net income to total asset. A low return on assets could result froma conscious decision to use a lot of debt, in which case high interest expenseswill cause net income to be relatively low.

C. Current Ratio (CR)

This ratio is calculatedby dividing currentassets by currentliabilities. It indicatesthe extent to whichcurrent liabilities arecovered by thoseassets expected to beconverted to cash inthe near future.Current assets include cash, marketable securities, accounts receivable, andinventories.If a company is getting into financial difficulty, it begins paying its bills(accounts payable) more slowly, borrowing from its bank, and so on, all of whichincrease current liabilities. If current liabilities are rising faster than currentassets, the current ratio will fall, and this is a sign of possible trouble.

D. Sustainable Growth Rate (SGR)

$SustainableGrowthRate=ReturnonEquityx\ (1-Payoutratio)$. Earnings not paid out as dividends are retained, or plowed back into the business. The proportion of earnings reinvested in the firm is called the plowback ratio(Brealey, Myers, and Marcus, 2001). It is also called the retention rate, the percentage of earnings retained by the company that is not paid out in the form of dividends. The return on equity measures the rate of return on common stockholders'investment,and return on equity is measured as net income to common stockholders divided by total stockholders' equity.

3. Hypothesis Testing and Data Analysis

In this study, we use regression test and t-test to analyze the data. We usedregressionanalysis to test the hypotheses 1, 2, 3 and 4, as regression analysis is concerned with the study of thedependent variable and the explanatory variable.For testing hypothesis 5 we use T-test. T-test is one of method that used in the parametric statistical hypothesis testing and to determine whether there is a significant difference between two variables.

Our regression models are as follows :

$Y1 = \beta o + \beta 1*X1 + \epsilon$

$Y2 = \beta o + \beta 2*X2 + \epsilon$

$Y3 = \beta o + \beta 3*X3 + \epsilon$

$Y4 = \beta o + \beta 4*X4 + \epsilon$

$Y = \beta o + \beta 1*X1 + \beta 2*X2 + \beta 3*X3 + \beta 4*X4 + \epsilon$

Where :

Y, Y1,2,3, and 4 = Sustainable growth rate

βo = intercept

β1,2,3, and 4 = coefficient of regression

X1,2,3, and 4 = Dependent variables (Stock price, ROA, PER, CR)

ϵ = error terms

RESULTS AND ANALYSIS

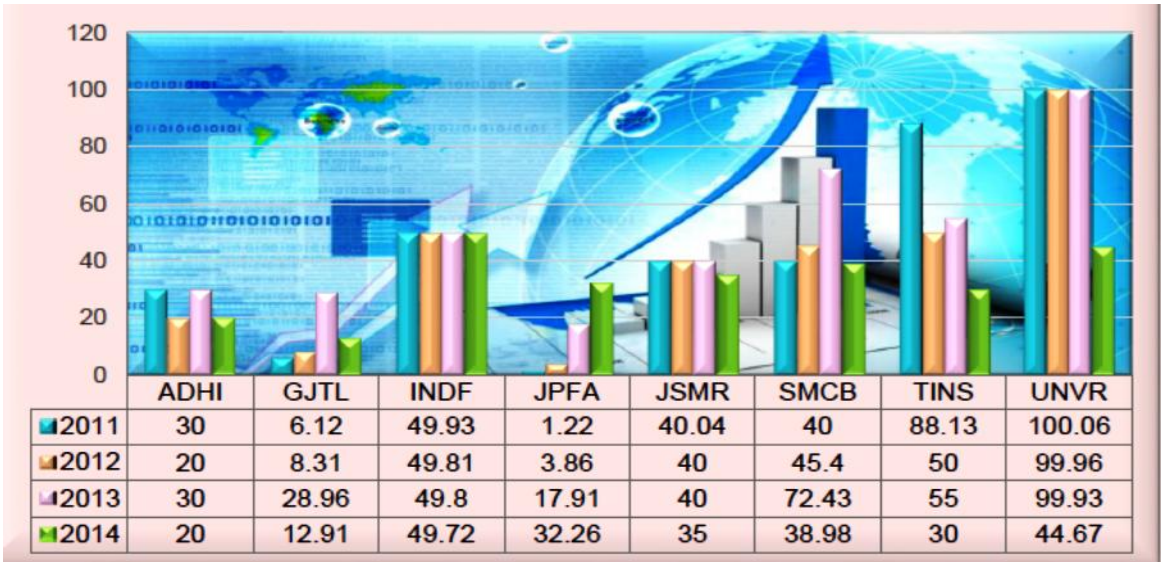
1. Analyzing Trends

By analyzing trends, we are able to determine whether there has been improvement in the performance of our firms sample regarding stock price and dividend payout ratio.

Graphic 1 Stock Price of Firms in Sri Kehati Index

	ADHI	GJTL	INDF	JPFA	JSMR	SMCB	TINS	UNVR
2011	580	3,000	4,600	3,825	4,200	2,175	1,670	18,800
2012	1,760	2,225	5,850	6,150	5,450	2,900	1,540	20,850
2013	1,510	1,680	6,600	1,220	4,725	2,275	1,600	26,000
2014	3,480	1,425	6,750	950	7,050	2,185	1,230	32,300

Graphic 2Dividend Payout Ratio of Firms in Sri Kehati Index

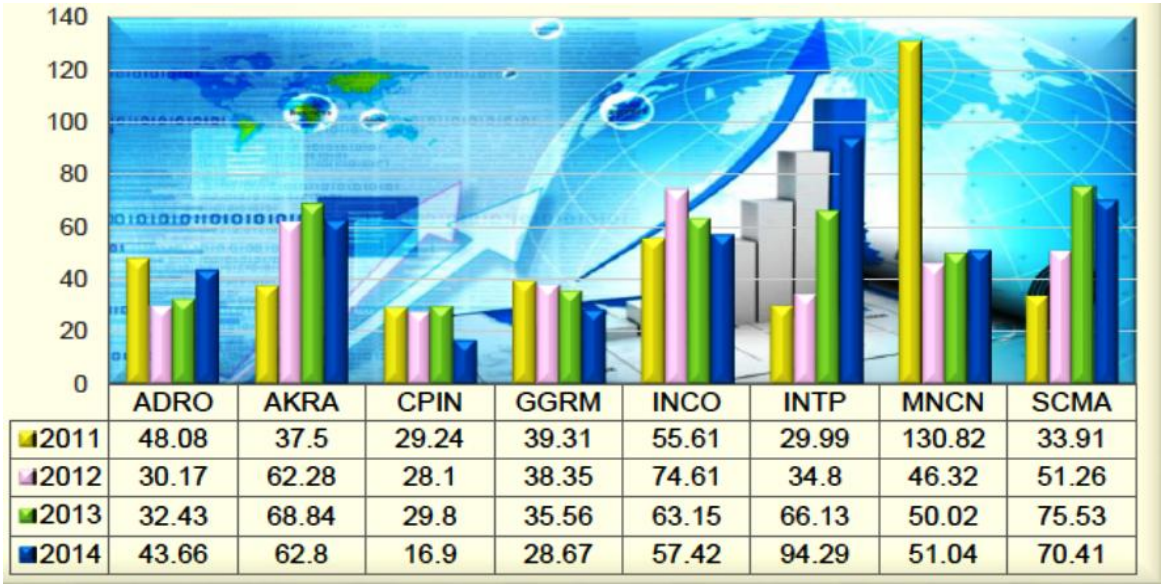


	ADHI	GJTL	INDF	JPFA	JSMR	SMCB	TINS	UNVR
2011	30	6.12	49.93	1.22	40.04	40	88.13	100.06
2012	20	8.31	49.81	3.86	40	45.4	50	99.96
2013	30	28.96	49.8	17.91	40	72.43	55	99.93
2014	20	12.91	49.72	32.26	35	38.98	30	44.67

Graphic 3 Stock Price of Firms in Business 27 Index

	ADRO	AKRA	CPIN	GGRM	INCO	INTP	MNCN	SCMA
2011	1,770	3,025	2,150	62,050	3,200	17,050	1,310	7,850
2012	1,590	4,150	3,650	56,300	2,350	22,450	2,500	2,250
2013	1,090	4,375	3,375	42,000	2,650	20,000	2,625	2,625
2014	1,040	4,120	3,780	60,700	3,625	25,000	2,540	3,500

Graphic 4 Dividend Payout Ratio of Firms in Business 27 Index



	ADRO	AKRA	CPIN	GGRM	INCO	INTP	MNCN	SCMA
2011	48.08	37.5	29.24	39.31	55.61	29.99	130.82	33.91
2012	30.17	62.28	28.1	38.35	74.61	34.8	46.32	51.26
2013	32.43	68.84	29.8	35.56	63.15	66.13	50.02	75.53
2014	43.66	62.8	16.9	28.67	57.42	94.29	51.04	70.41

UNVR has the highest stock price and dividend payout ratio among the firms in Kehati Index within 2011-2013. Stock price of INDF has been increasing during 2011-2014 and INDF can maintain the stability of dividend payout ratio to shareholders.Stock price of INTP is also the highest among 8 firms in Business 27 Index within 2011-2014 and dividend payout ratios of INTP have been increasing during 2011-2014. Dividend payout ratios of AKRA and SCMA

have been increasing during 2011-2013, and dividend payout ratios of ADRO and MNCN have been increasing during 2012-2014.

Financial signaling implies that concrete actions like a cash dividend increase, a stock dividend or stock split, and the repurchase of common stock convey positive information to investors about management's belief that the company is undervalued in the marketplace. These actions are said to be more convincing than a press announcement of the favorable earnings picture (Van Horne, 2005). Empirical evidence is consistent with a financial signaling or informational effect.

A company with high liquidity is likely to be more inclined to pay a dividend, all other things the same. The actual dividend is raised by the companies only when they feels confident that they can maintain the new and higher level. An extra dividend is above the regular dividend typically in a good earnings period.Company with medium or high dividend-payout ratio, its dividend-payout ratio will rise with the drop in earnings. Company with low dividend-payout ratio will probably wish to retain earnings to build its financial strength in order to offset the high business risk.

2. Results of Regression Analysis (Hypothesis Testing 1, 2, 3, and 4)

Table 2 Colinearity Statistics

Variable	Colinearity Statistics			
	Sri Kehati Index		Business 27 Index	
	Tolerance	VIF	Tolerance	VIF
Stock Price	.147	6.813	.983	1.018
ROA	.190	5.266	.896	1.116
PER	.646	1.549	.997	1.003
CR	.768	1.303	.894	1.118

Theobjective of the multicollinearity test is to examine whether there is correlation between variables. In this research, we test multicollinearity in the regression model by analyzing the tolerance values and variance inflation factor (VIF) (Hair et al. 1998). The tolerance values for all variables of two indices were above the cut-off point 0.10 and the VIF values were below 10.Therefore, as shown by the tolerance and VIF valuesindicate that there were no multicollinearityin ourregressionmodel.

Table 3 Summary of Regression Results

Business 27 Index	Understandardized Coefficient		t	Sig.
	Beta	Std.Error		
Intercept	7.217	4.075	1.771	.088
Stock Price	.001	.001	.068	.946
ROA	.842	.128	6.596	.000
PER	-.104	.130	-.799	.431
CR	-.014	.006	-2.750	.010
Sri-Kehati Index	**Understandardized Coefficient**			
	Beta	**Std.Error**	**t**	**Sig.**
Intercept	9.461	5.832	1.622	.116
Stock Price	.003	.001	4.984	.000
ROA	-1.048	.251	-4.173	.000
PER	-2.99	.176	-1.702	.100
CR	.014	.025	0.588	.562

For firms listed in Sri Kehati Index, we can show thatStock Price has positive and significant effect on SGR with t-value of 4,984 and significance value of 0.000, the ROA has negative and significant effect on SGR with t-value of -4.173 and significance value of 0.000. The PER has negative insignificant effect on SGR with t-value of -1.702 and significance value of 0.100, the CR has positive insignificant effect on SGR with t-value of 0.588 and significance value of 0.562.

These indicate that for firms listed in Sri Kehati Index, the higher the stockprice and CRof the company the SGR of companies will increase, the higher the level of PER and ROAof the company the SGR of companies will decrease.

For firms listed in Business 27 Index, we can show that the stockprice has positive insignificant effect on SGR with t-value of 0.068and significance value of 0.946, ROA has positive and significant effect on SGR with t-value of 6.596 and significance value of 0.000. PER has negative insignificant effect on SGR with t-value of -0.799 and significance value of 0.431, CR has negative and significant effect on SGR with t-value of -2,750 and significance value of 0.010.

These indicate that for firms listed in Business 27 Index, the higher the stock price and ROAof the company the SGR of companies will increase,the higher the level of PER and CRof the company the SGR ofcompanies will decrease.The same results found by Johnson and Soenen (2003) that large profitable companiess with efficient working capital management are the most successful companies with high degree of sustainable growth rate.

The interpretation of regression results are that firms in Business 27 Index don't increase paying dividends to the shareholders when the firms have high profitability. And when firms have high liquidity the managers decided not to increase dividend payments to shareholders.

Firms in Sri Kehati Index increase paying dividends when the firms have high profitability. And when the firms stock price increases firms decrease dividend payout ratio, as managers thought that the shareholders had received the capital gains so managers cut dividend payments to shareholders.

R-Square Analysis

Coefficientofdeterminationmeasuresthelinear relationship between two variables, and therefore shows how much independent variable can explain the dependent variable. The coefficient of determination provides a measure between 0 until 1.

Table 4 Model Summary

Sri Kehati Index		Business 27 Index	
Multiple R	0.7065585	Multiple R	0.791790861
R Square	0.499225	R Square	0.626932768
Adjusted R Square	0.4250361	Adjusted R Square	0.571663549
Dependent variable: Sustainable Growth Rate			

Table above shows the explanatory power of the models as indicated by the R^2 value. For firms listed in Sri Kehati Index, the coefficient of determination, or simply R-squared is 0.4992 or 49,92 per cent and interpreted as the percentage of variation of the response variables explained by the regression line. This means that 49,92 percent of the value of SGR could be explained by the ROA, PER, CR, and stock price.

For firms listed in Business 27 Index, table shows that R-square 0.6269 or 62,69 per cent and interpreted as the percentage of variation of the response variables explained by the regression line. This means that 49,92 percent of the value of SGR could be explained by the ROA, PER, CR, and stock price.

Table 5 F-Test

Index	F	Sig.
Sri Kehati Index	6.729	0.001
Business 27 Index	11.343	0.001
Predictors : Stock price, ROA, PER, CR ; Dependent variable : SGR		

In multiple regression, the F test is used to determine whether a significant relationship exists between the dependent variable and the set of all the independent variables; we will refer to the F test as the test for overall significance. From table shows that F value of 6.729 with significance of 0.001 and F value of 11.343 with significance of 0.001.

3. Results of T-test (Hypothesis Testing 5)

The following table presentsthe result of hypothesis testing 5.

Table 6 Results of T-test

ROA	**Sri-Kehati Index**	**Business 27 Index**
Mean	11,2381	14,8941
T stat	-1,9179	
P two-tail	0,0644	
T critical two-tail	2,0395	
PER		
Mean	21,0290	21,6047
T stat	-0,2471	
P two-tail	0,8064	
T critical two-tail	2,0395	
CR		
Mean	155.375625	338.4490625
T stat	-4.91962307	
P two-tail	2.70386E-05	
T critical two-tail	2.039513446	
SGR		
Mean	10,1489	11,7377
T stat	-0,5595	
P two-tail	0,5798	
T critical two-tail	2,0395	
Observation = 32		

From table above shown that for ROA, mean value of firms in Sri-Kehati Index is 11,2381 and mean value of firms in Business 27 Index is 14,8941 with t critical two-tail 2,0395 and p-value 0,0644.For PER, mean value of firms in Sri-Kehati Index is 21,0290 and mean value of firms in Business 27 Index is 21,6047 with t critical two-tail 2,0395 and p-value 0,8064.For CR, mean value of firms in Sri-Kehati Index is 155.375625 and mean value of firms in Business 27 Index is 338.4490625with t critical two-tail 2.0395 and p-value 2.70386E-05.For SGR, mean value of firms in Sri-Kehati Index is 10,1489 and mean value of firms in Business 27 Index is 11,7377with t critical two-tail 2.0395 and p-value 0,5798.

T-test resultsabove concluded that there is not significant different of firm's sustainable growth rate, return on asset, and PER between the two indiceswhile there is significant different of firm'scurrent ratio amongfirms listed in Sri Kehati Index and Business 27 Index. Firms in Business 27 Index have higher liquidity ratio than firms in Sri Kehati Index.

Therefore, based on our results and analysis above, we suggest that inorder to reach the sustainable growth rate of the firms, company's growth objectives and its financial policies are should mutually feasible, so that, it is good for firms to estimate earnings and investment opportunities at least over the next five years.The financial managers should also consider that the optimal dividend policy must balance between current dividends and future growth that maximizes the stock price of firms.

CONCLUSIONS

From the regression and t-test we can conclude that for firms listed in Sri Kehati Index, stock price has positive and significant effect on SGR, ROA has negative and significant effect on SGR, PER has negativeinsignificant effect on SGR, and CR has positive insignificant effect on SGR.

For firms listed in Business 27 Index, we can show that the stock price has positive and significant effect on SGR, ROA has positive insignificant effect on SGR,PER has negative insignificant effect on SGR, and CR has negative significant effect on SGR.

The mean value of CR of firms in Sri-Kehati Index and mean value of firms in Business 27 Index are significantly different, whereas the mean value of ROA, PER, and SGR of firms in Sri-Kehati Index and mean value of firms in Business 27 Index are insignificantly different.

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APPENDIX