International Journal on Social Sciences, Economics and Arts, 13 (3) (2023) 175-184

Published by: Institute of Computer Science (IOCS)

International Journal on Social Science, Economics and Art

Journal homepage: www.ijosea.isha.or.id

Market capitalization growth and leverage level on the performance of automotive and component sub-sector shares

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Article Info

Article history:

Received: Nov 02, 2023
Revised: Nov 13, 2023
Accepted: Nov 25, 2023

Keywords:

Investment decisions;
Long-term investment;
Market capitalization growth;
Stock performance;
Stock return.

ABSTRACT

The performance of stocks, as measured by stock return, is a crucial factor and often a primary consideration for investors when making investment decisions. The potential for profit in investing is attainable when investments are made for the long term and in the right instruments. The objective of this research is to analyze the influence of market capitalization growth, measured by the value of stock price and tradable shares, and leverage level, measured using the debt to equity ratio, on stock performance measured by stock returns. The research methodology employs descriptive verification analysis with a quantitative approach. The study focuses on the manufacturing industry, specifically the automotive and component sub-sector, listed on the Indonesian Stock Exchange (IDX). Observations were carried out over the period 2015-2020, involving 12 stock issuers. The sampling method utilized was purposive sampling. Data analysis was conducted using panel data regression, with the application of an F-test to examine the research model and a t-test to evaluate the research hypotheses at a significance level of 5% alpha. The results of the model test demonstrate a good fit, allowing for the subsequent testing of research hypotheses. The research findings reveal that market capitalization growth (market cap) has a positive and significant correlation with stock performance, as measured by stock returns. On the other hand, the leverage level measured using the debtto equity ratio has not impacted stock performance.

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1. INTRODUCTION

The manufacturing industry is one of the supporting sectors of the Indonesian economy. The Central Statistics Agency (BPS) stated that throughout 2019 Indonesia's manufacturing industry had experienced a decline compared to previous years((BPS), 2020). This condition was made worse by the Covid-19 pandemic that hit the world where many industries experienced a downturn(Jomo & Chowdhury, 2020). Among the industrial sectors that have been greatly affected by the pandemic is the manufacturing industry, especially automotive manufacturing(Belhadi et al., 2021). This industry cannot run its business by just working from home(Felstead et al., 2002). Apart from that, this industry is more careful in carrying out layoffs because finding skilled workers is not easy(Cascio, 2005). The

impact of the pandemic was felt strongly on the production and sales side, as a result, shares in this industry experienced a significant decline(Notteboom et al., 2021). What are the prospects for gaining profits for stock investors in the automotive industry in the future, it is interesting to study further.

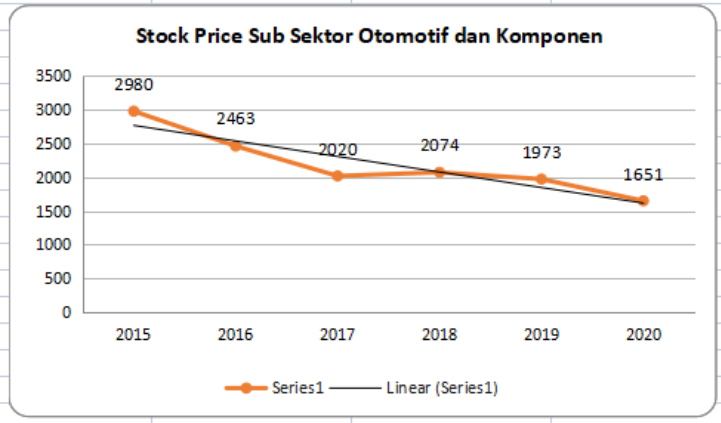

Figure 1. Average Share Prices in the Automotive Sub-Sector and Components for the 2015-2020 Period
Source: Processed data, 2022

An investor must have complete knowledge and information before deciding to invest in company shares(Myers & Majluf, 1984)(Holm & Rikhardsson, 2008). This is necessary to maximize the return that will be obtained at a certain level of risk or minimize the possibility of risk at a certain level of return and to determine the company's future prospects(Lintner, 1975). Stock returns that decline or show negative numbers occur because share prices continue to decline over time, as experienced by the automotive industry during the research period (Figure 1).

There are many things that must be understood in investing, one of which is market capitalization or often referred to as market cap(Siegel, 2003). Understanding this term is very important for investors because it can have a crucial influence on the company's fundamentals(Aich et al., 2021). Companies that have a high market capitalization value can be a consideration for investors to invest in(Permata & Alkaf, 2020).

If it is assumed that the number of outstanding shares does not increase, then when share prices continue to fall this will result in a decrease in the growth of the company's market capitalization value(Hall, 2001). This happens because market capitalization is often used by investors to assess company quality(Lang et al., 2003). Understanding the market capitalization value allows investors to determine how much money will be spent to obtain a portion of the company's shares(Damodaran, 2012). Companies that have a high market capitalization value can be considered by investors to invest their capital(Farooq et al., 2022). On the other hand, investors avoid companies that show a decreasing market capitalization trend. In this condition, investors are worried that they will not get a return from their stock investment.

Meanwhile, the downward trend in share prices in the automotive industry is not in line with the growth in capitalization in this industry(Sturgeon et al., 2009). Market capitalization in the automotive industry has increased from year to year during the research period(Pauwels et al., 2004). The existence of this phenomenon gap is interesting for further research. Based on current theory, an increase in market capitalization growth should be able to encourage an increase in share prices, but the phenomenon that occurs is the opposite(Lev & Ohlson, 1982)(Wilson & Post, 2013).

Another thing that is also important for investors to pay attention to is how much of the company's funding is financed by debt or what is known as leverage(Borio, 1990). When a crisis or the Covid-19 pandemic hits the world, companies with strong internal funding are more able to survive than those with high leverage(Baines & Hager, 2021). Regarding the level of leverage on the opportunity to obtain stock returns, many studies provide different results(Andersson, 2016)(Mufidah & Sucipto, 2020).

Stock performance management is also influenced by how the company designs and controls the ideal and optimal level of leverage for the company(DeNisi & Smith, 2014). Namely at an acceptable level of leverage that can increase value for shareholders(Tahu & Susilo, 2017). Companies with a high level of leverage illustrate that most of the company's assets are funded by external capital sources, namely debt(Wang & Lin, 2013). Many companies have succeeded in achieving increased stock performance through managing leverage like this(Zahra, 1995). The increase in debt was responded positively by investors who believed that external funding sources would be able to increase the company's value in the future(Almeida et al., 2011). An increase in debt will have an impact on the benefits obtained from savings in the tax model, this is in line with the trade-off theory in the Modigliani-Miller version of capital structure design(Pan, 2013)(Kruk, 2021).

Several studies show the opposite, that increasing debt will burden shareholders. This condition is not liked by risk-averse investors. A large proportion of debt can increase high growth, but on the other hand, large debt will increase the possibility of bankruptcy for the company, especially if the debt causes the company's growth to be small or even negative. This is in line with the pecking order theory in capital structure theory(Chen & Chen, 2011).

The automotive industry is among those who exercise caution in designing the proportion of external funding(Castellacci, 2008). It appears that there is a decrease in company debt so that the trend of company leverage is decreasing. Decreased leverage This seems to have been responded negatively by investors who were pessimistic about the company's future performance, resulting in a decline in share prices.

Based on these conditions, the thing that needs to be analyzed in more depth is whether a company's large market capitalization can really guarantee the opportunity for profit (return) that investors can get when investing and what the level of leverage is about the possibility of investors getting a return from their stock investment in the future.

Based on the description above, this research aims to analyze, How does the growth of market capitalization (market cap) affect stock performance (stock returns). What is the effect of the level of leverage measured through the debt to equity ratio (DER) on stock performance (stock returns).

2. RESEARCH METHODS

The company's responsibility in relation to financial management is to maximize company value(Mihajlović et al., 2020)(Kaminskii, 2020)(Benson & Davidson, 2010). Company value can be interpreted as the price that potential buyers are willing to pay if the company is sold. For companies going public, company value can be measured by the high and low prices of the company's shares on the capital market. Share prices describe investors' perceptions of company performance. The higher the share price, the higher the company value(De Jong et al., 2014). High and continuously increasing share prices will provide profits for shareholders. This condition reflects that the company's shares have good performance because they can provide returns for their shareholders.

Stock Performance (Stock Return)

Stock performance is a measurement of the achievements achieved by managing company shares and can reflect the health condition of the company(Brammer et al., 2006). Stock performance can be seen from stock returns and abnormal returns(Nur & Dadan, 2017). In this research, stock performance is measured by stock returns. Stock return is the level of profit enjoyed by investors from their investment activities. Stock returns consist of capital gains (loss) and yield. Stock returns are calculated using the formula (Aharoni et al., 2013)(Handayani et al., 2022):

$$\text{Stock Return} = \frac{P_t - P_{t-1} + D_t}{P_{t-1}} \quad \text{..... (i)}$$

Information :
P_t = share price this period;
P_{t-1} = stock price in the previous period.
Dt = dividend

Apart from investors' perceptions, high and low stock performance is influenced by company fundamental factors. The fundamental factors that will be examined for their influence on stock performance (stock returns) in this research are the growth of market capitalization (market cap) and the level of leverage.

Market Capitalization (Market Capitalization)

Market capitalization is a price that represents the market value of a company as indicated by the number of shares outstanding(Almumani, 2018). Market capitalization describes a company's good growth potential and has a low level of risk. Large market capitalization is generally one of the attractions for investors in choosing shares (Hariyanto, 2021). The greater the market capitalization of a stock, the longer investors will hold their share ownership, so that in the long term this will encourage share prices to increase.

Investors assume that large companies will tend to be more stable financially, have less risk, and have good prospects in the long term with expectations of large returns(Fulton et al., 2012). Thus, the higher the market capitalization growth rate, the higher the share value and share returns that investors will enjoy (Wahyudi et al., 2020)(Rosita & Tahmat, 2021).

In this research, to obtain the market capitalization value, the share price at market closing is multiplied by the number of shares in circulation(Indrayana et al., 2020)(Indraswari & Mimba, 2017). Mathematically, the market capitalization value is formulated as follows:

$$\text{MarCap} = \text{Ps} \times \text{Ts} \quad \text{..... (ii)}$$

Information:
MarCap = Market Capitalization (Market Capitalization)
Ps = Stock Price (Share Price)
Ts = Treadable Shares (Number of Outstanding Shares)

Meanwhile, market capitalization growth is calculated from the delta of capitalization value from year to year.

Leverage (Debt to Equity Ratio)

Leverage describes how a company finances its assets with permanent funds to expand its business scale(Borio, 1990). Determining the optimal level of leverage is aimed at achieving an increase in company value(Barakat, 2014). The optimal leverage level is the funding balance that can maximize the company's share price(Barakat, 2014). Leverage in this research is measured through the debt to equity ratio (DER), which compares the amount of debt with equity(Kamar, 2017). The debt to equity ratio will affect company performance and cause share price appreciation(Safitri et al., 2020).

A high DER value indicates high long-term debt compared to equity(Farah & Amin, 2021). A high DER can have a positive impact on a company, namely that an increase in debt can encourage an increase in investment(Erkaningrum, 2013)(La Rosa et al., 2018). The right investment can encourage good prospects for the company's future (Bushee, 2004).

High DER can also have a negative impact on company performance. A high debt level indicates that the company's interest burden will be even greater. Higher interest expenses will be accompanied by lower profits. Investors will avoid companies that experience declining profits, which will result in a decline in share prices. The higher the DER indicates the greater the debt and tends to reduce share prices.

Thus, there is an influence between the size of the DER on share price movements and the acquisition of stock returns (Demsetz & Lehn, 1985). The level of leverage through DER measurement in this study follows the formula:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}\% \quad \text{..... (iii)}$$

Information:
DER = Debt to Equity Ratio
Total Debt = Total Long Term Debt
Total Equity = Total Own Capital

Research Hypothesis

This research raises two hypotheses, namely:

H_1 : There is a significant influence of market capitalization growth on stock performance as measured by stock returns

H_2 : There is a significant effect of the level of leverage on stock performance as measured by stock returns

The research uses descriptive and verification methods. The unit of analysis was carried out on the automotive sub-sector manufacturing industry and components listed on the IDX during the 2015-2020 period. Samples were taken using a purposive sampling method with the following criteria:
(1) listed in the Automotive and Components Sub Sector on the IDX;
(2) There were 12 issuers listed on the IDX consecutively from the 2015-2020 period;
(3) Publish audited financial reports every year for the period 201 5 - 20 20 there are 12 issuers .
Based on these criteria, 12 issuers will be taken as research samples.

The data analysis technique that will be carried out in this research uses a panel data regression model. The regression model in this research can be expressed with the following equation:

$$SR = a + b_1 MarkCap + b_2 DER \quad \text{..... (iv)}$$

To determine whether the regression model formed is suitable or not, the F statistical test is carried out. Meanwhile, the hypothesis is tested using the t test statistic.

The coefficient of determination (R2) is used to measure how far the model's ability can explain variations in the independent variables. A small coefficient of determination (R2) value means that the ability of the independent variables, in this case market capitalization growth and DER, to explain the dependent variable (stock returns) is very limited. An R2 value that is close to one means that the model formed is able to explain variations in the dependent variables. Meanwhile, R2 which is close to zero indicates the limited ability of the model formed to explain changes in the independent variables. The coefficient of determination value used in this research is Adjusted R2 which can increase or decrease if one independent variable is added to the regression model.

3. RESULTS AND DISCUSSION

Performance of Automotive and Component Sub-Sector Shares

The following is an overview of the performance of shares in the Automotive and Sub Sectors Components during the 2015-2020 research period were measured through stock returns. Based on Figure 2, it can be seen that **the** majority of companies in the Automotive and Components Sub-Sector during the research period were unable to provide profits in the form of stock returns for their shareholders due to declining share prices.

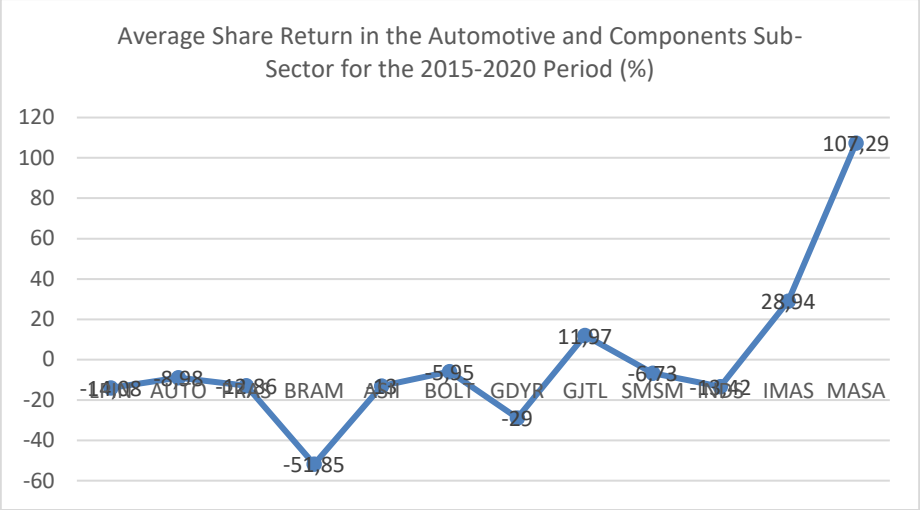

Figure 2. Average Share Returns in the Automotive Sub-Sector and Components for the 2015-2020 Period

Test Results and Research Model Estimation

The following are the results of data processing including model testing, hypothesis testing, and the analysis method uses a panel data regression estimation model.

Table 1. Estimation Results of Panel Data Regression Model

Variables	Coefficient	Std. Error	t-Statistics	p-value	
(Constant)	22.26069	423,429	5,257	0,000	
MarketCap	1.934E-11	0.00024	5,831	0.001	Sign
DER	-66.6663	332,048	-2,008	0.051	Non Sign
R- Squared	0.881				
Adj. R-Squared	0.878				
F-Statistics	256,376				
Prob. F	0,000				
α	0.05				

a Predictors : (Constant): Market Capitalization, Leverage (DER)
b Dependent Variable: Stock Return

Based on the table above, the model in this research is:

$$\text{Stock Return} = 22.26069 + 1.934E\text{-}11\ \text{MarkCap} - 66.6663\ \text{DER}$$

The results of model testing show that the predictors of market capitalization growth and leverage level are significant on stock performance (p-value 0.000). This shows that the market capitalization variable measured through share prices and the number of shares outstanding as well as the level of leverage measured through DER can be used to predict stock performance as measured through stock returns. The results of the adj R-square calculation show that 87.8 % of the variation in stock returns can be predicted by market capitalization growth and leverage levels.

Test Results of the Effect of Market Capitalization Growth on Stock Returns

The results of testing the first hypothesis show that the predictor of market capitalization has a significant effect on stock returns (p-value 0.001) with a positive relationship. This shows that an increase in market capitalization can be used to predict an increase in stock returns and a decrease in market capitalization can be used to predict a decrease in stock returns. The higher the market capitalization, the higher the growth, which describes share prices that have increased at a certain level of treadable shares or at certain share prices that treadable shares have increased, or there has been growth in both share prices and treadable shares. Regarding what happens in the Automotive and Components Sub-Sector, when share prices decrease the number of outstanding shares (treadable

shares) increases more than the decline in share prices, so that market capitalization tends to experience growth during the research period.

The findings of this research indicate that the majority of issuers in the Automotive and Components Sub Sector are companies that have large market capitalization so they are considered to be at the top of a business cycle and are considered mature, so they have a growth rate that is not as big as companies that are currently developing. The returns obtained were not very large or some issuers even experienced a decrease in returns. Large market capitalization is a concern for investors when designing long-term portfolios. The greater the market capitalization of a stock, the longer investors maintain ownership of the stock because investors assume that large companies will tend to be more stable from a financial perspective even when returns decrease or don't even get a return.

The results of this research are in line with research by Wahyudi, et al (2020) which found that market capitalization has a significant effect on stock returns in the direction of a positive relationship, whereas according to Tahmat, et al (2021), Hariyanto (2021) market capitalization has a significant effect on stock returns in the direction of the relationship. negative. The research results conflict with research findings from Fitrah et al (2022), Ardiansyah and Mardiati (2016), Handayani (2022) which state that market capitalization has no significant effect on stock returns.

Test Results of the Effect of Leverage Level on Stock Returns

The results of testing the second hypothesis show that the predictor level of leverage does not significantly influence stock returns (p-value 0.051) with a negative relationship direction. The results of this research indicate that movements in leverage levels cannot be used to predict movements in stock returns. The increase or decrease in stock returns is not caused by the rise and fall of leverage as measured by the debt to equity ratio (DER). In other words, the research results show that the size of the DER cannot determine the rise and fall of stock returns.

The implications of the research results indicate that issuers in the Automotive and Components Sub Sector focus more on controlling profits on efforts to return funds from external parties rather than increasing returns for their shareholders. Meanwhile, investors in the Automotive and Components Sub Sector do not seem to be affected by the amount of equity capital and the rise and fall of company debt. Most of the companies in this industry have a large market share and are already in a mature position, so psychologically investors believe that their share investment in this industry will be safe in the long term.

The results of this research are in line with research by Handayani, et al (2022), Lisiani and Mappanyukki (2021), Nurhikmawaty, et al (2020), Ibrahim (2019), Malahayati, et al (2022) who found that DER has no significant effect on stock returns. The research results contradict the research results of Ardiansyah and Mardiati (2016), Sausan, et al (2020), Ramadhani and Ratnasari (2022) which state that DER has a significant effect on stock returns.

4. CONCLUSIONS

The research results can be concluded that: There is a significant influence between market capitalization growth on stock performance as measured by stock returns. There is no significant influence between the level of leverage on stock performance as measured by stock returns. Based on the research results, suggestions that can be given to parties interested in the results of this research are as follows It is hoped that the research results will provide issuers with an idea of how share performance can provide returns for shareholders through market capitalization growth by controlling share prices and share trading volume. It is hoped that the description of the results of this research can be used as a basis for making investment decisions. As material for further research development by expanding the variables, research period, unit of analysis, as well as the model developed.

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