

**THE EFFECT OF OPERATING CASH FLOW AND
COMPANY GROWTH ON STOCK PRICES
(Empirical study on Food and Beverage Subsector Manufacturing
Companies Listed on the Indonesia Stock Exchange in 2016-2020)**

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Abstract

This study aims to determine the effect of operating cash flow and company growth on stock prices in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange. The population of this study are manufacturing companies in the food and beverage sub-sector which are listed on the Indonesia Stock Exchange in 2016-2020. The sampling technique used was purpose sampling and the research data obtained were 11 companies with 5 years of research so that the number of samples in this study was 55 company data. The data analysis method used is panel data regression. The results showed that partially operating cash flow had a significant effect on stock prices, while company growth had no significant effect on stock prices. Meanwhile, simultaneously operating cash flow and company growth had a significant effect on stock prices.

Keywords: *Company Growth, Operating Cash Flow, Stock Price, Food and Beverage Companies*

1. INTRODUCTION

The company's growth is often used as a benchmark in assessing the development of a company and is an expectation desired by all parties, both internal to the company and external parties of the company. of the company's share price. Cash flow statements have very complex benefits and cash flow information can be used to predict stock prices. Share Price is the selling value in rupiah of each share in a company.

In fact, the performance of the consumer goods sector on the Indonesian stock exchange is getting dismal, since the beginning of the year its performance has fallen by almost 20%, to be exact 19.31% based on stock exchange data on Thursday (14/11/2019). The consumer sector was still under pressure and became the main weight for the Composite Stock Price Index (JCI) in the first session on Friday (15/11), with a 0.26% decline at the level of 2,067.88. One of the issuers that burdened the negative performance of the consumer sector, namely: PT. Unilever Indonesia Tbk/UNVR (-6.66%) (Muamar, 2019).

According to research by Ismail et al. (2020) operating cash flow has a positive effect on stock prices. However, it is different from the research by Cornelius & Wijaya (2019) which highlight that operating cash flow has no significant effect on stock prices. Furthermore, previous research on company growth on stock prices examined by A. W. Sari & Khuzaini (2021), said that company growth based on total assets (PTA) had a positive effect but insignificant on stock prices.

Based on this issue, the authors is interested in conducting an investigation on whether there is an effect of operating cash flow and company growth on stock prices. Hence, this research is entitled "The Effect of Cash Flow and Company Growth on Stock Prices (Empirical study on Food and Beverage Subsector Manufacturing Companies Listed on the Indonesia Stock Exchange in 2016-2020)."

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory states that there is a cooperation contract relationship between two parties, namely the principal (shareholders) and the agent (manager). According to I. R. Sari (2020) Agency relationship is a contract in which the shareholder (principal) gives orders to management (agent) to perform a service on behalf of the principal and authorizes the agent to make the best decision for the principal. If the goals of both parties are the same, they are able to maximize the value of the company, then it can be believed that the agent will act in a manner that is in the interests of the principal.

2.2. Signal Theory

Signal theory explains why companies provide information about financial statements that have been made to external parties, namely investors, creditors, and other users of information who need it. In this study, the company gives signals to external parties who use financial statements, in the form of information on operating cash flows and company growth based on total assets. This information is important for external parties such as investors to be able to make decisions in stock trading and find out changes in volume in changes in stock prices.

2.3. Operating Cash Flow

According to Adiliawan (2010), operating activities are the main income generating activities of the company (principal revenue activities) and other activities that are not investing and financing activities, generally originating from transactions and other events that affect the determination of net profit or loss, and is an indicator that determines whether the company's operations can generate sufficient cash to repay loans, maintain the company's operating capability, pay dividends and make new investments without relying on funding sources

2.4. Company Growth

Fahmi (2016) argues that the company's growth is a form of the ability to improve its performance so that the company can place itself in a better economic system. According to Chair in Ismail et al. (2020) that the company's growth can be calculated from changes in the company's total assets, either in the form of an increase in total assets or a decrease in total assets experienced by the company for one year (one period).

2.5. Stock Price

According to Mohamad (2015), stock prices occur due to the process of buying and selling shares and good company performance that can generate investor interest in

increasing stock purchases. According to Brigham and Houston (2012) that the better the company's operating cash flow can guarantee large dividends while increasing stock prices in the future.

2.6. Research Hypothesis

2.6.1. The Effect of Operating Cash Flow on Stock Prices

In PSAK 2 (Statement of Financial Accounting Standards), operating cash flows are cash flows originating from operating activities, especially those obtained from the company's main income generating activities that can determine net income. So if the higher the operating cash flow of a company, it can be said that the company can operate profitably. Cash flow from the company's operational activities will determine a company can pay off obligations, pay dividends, maintain the company's operational capabilities, and make investments without relying on external sources of funding.

Triyono & Hartono (2000) concluded the study by separating the total cash flow into three components of cash flow, especially operating cash flow has a significant relationship to stock prices. Whereas, Mutia (2012) conclude that cash flows from operating activities have no significant effect on stock prices. From the explanation of operating cash flow and the results of the study, it can be concluded that cash flow from operating activities has an influence on stock prices. Therefore, the hypothesis can be formulated as follows:

H1: It is suspected that operating cash flow has an effect on stock prices

2.6.2. The Effect of Company Growth on Stock Prices

Company growth is a description of the development of a company from year to year. The increasing development of the company's growth shows that the company is able to survive in its industry competition and successfully execute the company's strategy. From the investor's point of view, the growth of a company is a sign that the company has a profitable aspect, and they expect the rate of return from their investment to provide better returns (Purba, 2017). The better the growth of the company, the positive response from investors to the company, so that more investors invest in the company, it will be followed by an increase in the company's stock price.

In Wijaya & Utama (2014), sales growth has a positive effect on stock prices, which means that information about the company's growth is responded positively by investors, so that it will increase stock prices. Hence, the following hypotheses can be determined as:

H2: It is suspected that the company's growth will affect the stock price

2.6.3. The Effect of Operating Cash Flow and Company Growth on Stock Prices

The increased operating cash flow will increase the company's profit and will have an impact on increasing the company's stock price. Increased operational cash flow activity in a company will have an impact on increasing the company's stock price in the market. According to Signaling Theory, the high value of company growth can have a positive impact on investors, because companies that continue to grow and develop can provide a positive signal for an increase in stock prices. Therefore, this study proposes the following hypothesis:

H3: It is suspected that operating cash flow and company growth have an effect on stock prices.

3. RESEARCH METHODS

3.1. Data collection technique

The method used in this study is a quantitative method. In this study, we will use data from the financial statements of manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange. This study uses the source of the annual financial statements in 2016 to 2020 obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id.)

The data analysis program used is Eviews version 9. The sampling technique in this study was carried out by purposive sampling method. Purposive sampling is a method of selecting samples based on certain criteria. The sample criteria to be used are as follows:

1. Manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange from 2016 - 2020.
2. Companies that use rupiah currency from 2016-2020
3. Companies that experience consecutive profits from 2016-2020.
4. Companies that provide complete financial reports from 2016-2020

3.2. Variable Operation

The dependent variable in this study is stock price (Y) and the independent variables used in this study are operating cash flow (X1) and company growth (X2).

The share price is calculated using:

$$\text{Stock Price} = \text{Closing Price}$$

Operating cash flow is calculated using the ratio:

$$AKO = \frac{\text{Operating cash flow}}{\text{Sales}}$$

Meanwhile, company growth is calculated using the ratio:

$$PTA = \frac{\text{Total Asset } (t) - \text{Total Asset } (t - 1)}{\text{Total Asset } (t - 1)}$$

4. RESULTS AND DISCUSSION

4.1. Panel Data Regression Model Selection

- 1) Chow Test

Table 1 Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	23.941351	(10,42)	0.0000
Cross-section Chi-square	104.618555	10	0.0000

Source: processed data, 2022

In the results of the Chow test, it can be seen that the probability value of Cross-section F is $0.0000 < 0.05$. Hence, H_0 is rejected and H_1 is accepted, which means that the fixed effect model is better to use than the common effect model.

2) Hausman Test

Table 2 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.454241	2	0.0241

Source: processed data, 2022

In the results of the Hausman test, it can be seen that the probability value is $0.0241 < 0.05$, then H_0 is rejected and H_1 is accepted, so it is better to use the Random Effect Model.

3) Lagrange Multiplier Test

Table 3 Lagrange Multiplier Test Results

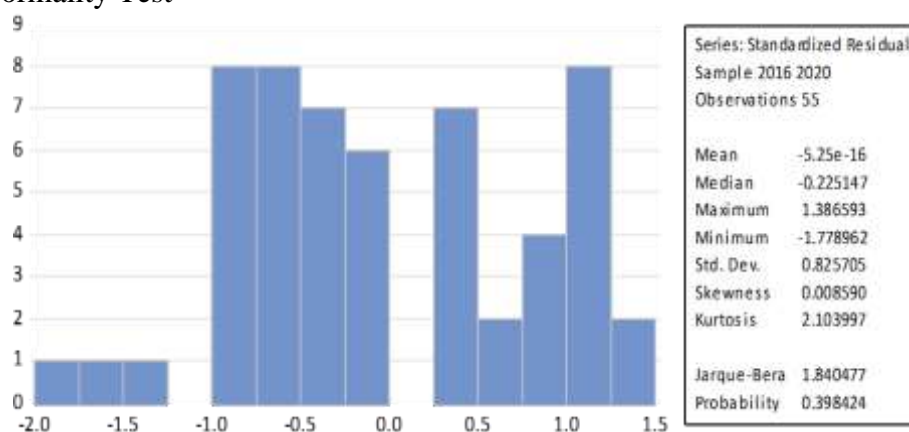
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	59.69465 (0.0000)	1.165946 (0.2802)	60.86060 (0.0000)

Source: processed data, 2022

In the lagrange multiplier (LM) test, it can be seen that the Breusch-Pagan value of Both is $0.0000 < 0.05$, then H_0 is rejected, H_1 is accepted, which means that the Random Effect Model is better used.

4.2. Classic Assumption Test

1) Normality Test



Source: processed data, 2022

Figure 1 Normality Test Results

Based on the results of the normality test, it shows that the probability value is 0.398424

> 0.05, which means that the data in this study are normally distributed.

2) Heteroscedasticity Test

Table 4 Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2831953.	2485999.	1.139161	0.2599
X1	51633359	11392295	4.532305	0.0000
X2	-4170716.	5710808.	-0.730320	0.4685

Source: processed data, 2022

In the heteroscedasticity test, the probability value of the X1 variable is 0.0000 < 0.05, which means that there is heteroscedasticity, while the probability of the X2 variable is 0.4685 > 0.05, which means that there is no heteroscedasticity. So it can be concluded that operating cash flow (X1) and company growth (X2) are not the same.

3) Multicollinearity Test

Table 5 Muticollinearity Test Results

	X1	X2
X1	1.0000000	-0.079611
X2	-0.079611	1.0000000

Source: processed data, 2022

The multicollinearity test shows that the correlation coefficient of the independent variable is -0.079611, it can be concluded that $-0.079611 < 0.9$ which means that the operating cash flow and company growth variables do not occur multicollinearity between the independent variables.

4) Autocorrelation Test

Table 6 Autocorrelation Test Results

R-squared	0.582103	Mean dependent var	8.68E-13
Adjusted R-squared	0.548671	S.D. dependent var	3212.023
S.E. of regression	2157.869	Akaike info criterion	18.27814
Sum squared resid	2.33E+08	Schwarz criterion	18.46062
Log likelihood	-497.6488	Hannan-Quinn criter.	18.34871
F-statistic	17.41168	Durbin-Watson stat	1.738033
Prob(F-statistic)	0.000000		

Source: processed data, 2022

Based on the autocorrelation test, it can be seen that the Durbin-Waston (DW) value is 1.738033, which means that the Durbin-Waston value is between 1.55-2.46, so it can be concluded that there is no interfering error in the previous period.

4.3. Hypothesis Testing

1) Panel Data Regression Test

Table 7 Panel Data Regression Test Results

Dependent Variable: LOGY
 Method: Panel EGLS (Cross-section random effects)
 Date: 07/07/22 Time: 16:02
 Sample: 2016 2020
 Periods included: 5
 Cross-sections included: 11
 Total panel (balanced) observations: 55
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.530566	0.248262	30.33317	0.0000
X1	2.877156	0.939594	3.062127	0.0035
X2	-0.091231	0.182180	-0.500774	0.6186

Effects Specification		S.D.	Rho
Cross-section random		0.655704	0.7929
Idiosyncratic random		0.335107	0.2071

Weighted Statistics			
R-squared	0.140855	Mean dependent var	1.772969
Adjusted R-squared	0.107811	S.D. dependent var	0.372919
S.E. of regression	0.352243	Sum squared resid	6.451918
F-statistic	4.262643	Durbin-Watson stat	1.272461
Prob(F-statistic)	0.019308		

Unweighted Statistics			
R-squared	0.355593	Mean dependent var	7.957329
Sum squared resid	36.84902	Durbin-Watson stat	0.222796

Source: processed data, 2022

Based on the results of the panel data analysis above, the panel data regression equation can be formulated as follows: $Y = C + X1 + X2 + \epsilon$

$$Y = 7.530566 + 2.877156 (\text{Operating Cash Flow}) - 0.091231 (\text{Company Growth})$$

Based on the regression equation above, each variable can be described as follows:

1. Stock price

The regression equation shows that the constant value is 7.530566. This result states that if the operating cash flow variable, the company's growth is considered constant or zero, this means that the stock price will increase by 7.530566.

2. Operating Cash Flow

The regression coefficient on operating cash flow is 2.877156. This result states that for each unit operating cash flow variable (assuming other independent variables are considered constant), the operating cash flow variable will increase by 2.877156.

3. Company Growth

The regression coefficient for company growth is -0.091231. This result states that for each unit of the company's growth variable (assuming other independent variables are considered constant), the company's growth variable will decrease by -0.091231.

5. CONCLUSION

This study aims to examine and determine the effect of operating cash flow and company growth on stock prices in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period.

Based on the results of research and hypothesis testing that has been done, it can be concluded as follows:

1. Based on the t test (partial) it can be concluded that operating cash flow has an effect on stock prices
2. Based on the t test (partial) it can be concluded that the company's growth has no effect on stock prices.
3. Based on the F test (simultaneous) it can be concluded that operating cash flow (X1) and company growth (X2) simultaneously affect stock prices.

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