



Implications Of Operating Cash Flow And Market Valuation On Food And Beverage Industry Stock Returns

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ABSTRACT

Background: The volatility of the capital market during the 2019–2023 period, encompassing the global pandemic and subsequent economic recovery, has underscored the need for a precise assessment of fundamental drivers in the defensive food and beverage sector. **Objective:** This study aims to empirically examine the influence of Operating Cash Flow (OCF), Capital Structure, Price Earnings Ratio (PER), and Net Profit Margin (NPM) on stock returns. **Methodology:** Employing a quantitative approach, the research utilizes panel data regression analysis on a purposive sample of food and beverage companies listed on the Indonesia Stock Exchange. **Results:** The findings demonstrate that while Operating Cash Flow fails to exert a significant partial effect, Capital Structure, PER, and NPM significantly determine stock returns. Furthermore, the simultaneous analysis confirms that these variables collectively possess substantial predictive power regarding market performance. **Discussion/Novelty:** This research makes a novel contribution by demonstrating that, during periods of economic transition, market valuation and profitability metrics remain more salient to investors than liquidity-based indicators. **Conclusion/Contribution:** These results offer critical strategic insights for investors in optimizing portfolio selection and for corporate management in formulating financial policies to maximize shareholder wealth.

INTRODUCTION

The capital market is a key indicator of the economy, serving as a source of corporate funding and an alternative strategic investment for the community. Stock instruments offer promising return opportunities, but they inherently carry the risk of volatility influenced by fundamental performance. In Indonesia, the food and beverage subsector contributes significantly to national economic growth, driven by a large population and relatively stable

consumption levels. However, empirical data for the 2019–2023 period shows sharp fluctuations in stock returns in this sector, reflecting the uncertainty of issuers' performance amid post-pandemic market dynamics.

This phenomenon of fluctuations triggers the need for precise fundamental analysis, primarily through a quantitative approach to financial statements. Based on signalling theory, companies provide signals about prospects through financial information to reduce information asymmetry between managers (agents) and shareholders (principals) as described in agency theory. One key signal is Operating Cash Flow (OCF), which reflects a company's ability to generate cash from its core business activities. Although, in theory, high OCF should increase investor confidence and stock returns, there is a research gap: Putra & Widyaningsih (2016) found a positive influence, while Bungadira et al. (2024) reported no significant influence.

In addition to cash, capital structure policies, as measured by the Debt-to-Equity Ratio (DER), are a crucial determinant of risk and profit balance. Optimal debt management is considered to increase the company's value and attract investors, although excessive debt use risks increasing volatility and return volatility. On the other hand, market valuation indicators such as Price Earnings Ratio (PER) and profitability efficiency indicators such as Net Profit Margin (NPM) play a vital role in predicting stock performance. Strong NPMs reflect management's ability to reduce operating costs, while PERs reflect expectations for future profit growth. However, the relevance of these two ratios to stock returns remains debated in the current literature.

This research focuses on the fundamental dynamics of companies amid the post-pandemic global economic transition, where traditional financial ratios are being retested for relevance. Based on signalling theory, information such as profit and cash flow serves as a signal to external parties regarding the company's prospects. From an agency theory perspective, financial statements also serve as a mechanism for management (agents) to be accountable to shareholders (principals) and to minimize information asymmetry. However, the consistency of such signals is still a matter of debate in the current financial management literature.

The main research gap in this study concerns the inconsistency in previous findings on the determinants of stock returns. Regarding Operating Cash Flow (OCF), Putra & Widyaningsih (2016) reported a positive influence, whereas Bungadira et al. (2024) found no significant effect. Inconsistencies were also found in the Capital Structure (DER) variable: Wibowo & Mekaniwati (2020) reported a significant positive effect, whereas Oktaviana et al. (2020) reported the opposite result. Similarly, in the Price Earnings Ratio (PER), Asrini (2020) found a positive influence, whereas Ester & Darwin (2019) reported no significant influence. Finally, on Net Profit Margin (NPM), Yuningsih (2020) found a positive influence, but Ristyawan (2019) reported no influence.

This study aims to fill the literature gap by comprehensively analyzing the influence of Operating Cash Flow, Capital Structure, PER, and NPM on stock returns in the food and beverage subsector for the 2019–2023 period. By using a quantitative approach through panel data regression, this study provides a more comprehensive picture of the company's financial behavior over time. The analysis shows that these variables have a significant effect on stock returns, with the model achieving 75% power. The study found that investors are more likely to respond to profitability indicators (NPM) and market valuation (PER) than to short-term cash flows in the strategic decision-making process.

LITERATURE REVIEW

Agency Theory

Agency theory (Jensen & Meckling, 1976) explains the separation of interests between principal and management. Conflicts arise because agents have more complete information about the company's condition than the principal (information asymmetry). In the context of this

study, financial statements are used to provide management accountability to investors, so financial ratios are important as performance signals.

According to Irawan & Kusuma (2019), Agency Theory explains the separation between the management function (performed by the manager) and the ownership function (performed by shareholders) in a company. According to Wati (2023), in agency theory, management accounting information serves two purposes. First, it is used for principal-agent decision-making. Second, it is used to evaluate and share results in accordance with established and approved employment contracts. Agents, as company managers, will undoubtedly know more about the company's internal information and prospects that will be shared with the principal.

Signalling Theory

Signal theory (Spence, 1973) emphasizes that companies can signal their prospects to external parties through financial statements. Signalling Theory explains how investors have uniform information about a company's prospects, while company managers have different information, known as asymmetric information. The information submitted by the company is generally presented in a report on the company's condition for each period. This theory holds that management will provide investors and shareholders with information when it has good information about the company, such as information that increases the company's value. However, investors do not trust this information because managers are interested parties. So that companies with high values signal their financial policies, which differ from those of companies with low values. Financial ratios such as operating cash flow, capital structure, P/E ratio, and NPM are signals that investors can consider in making investment decisions. Positive signals will increase investor confidence and affect stock returns.

Operating Cash Flow

Operating cash flow reflects a company's ability to generate cash from its core operations (Meisyta et al., 2021). Several studies show different results: Putra & Widyaningsih (2016) found that operating cash flow had a positive effect on stock returns, while Bungadira et al. (2024) found no significant effect.

H1: Operating cash flow affects stock returns

Capital Structure

The capital structure describes the proportion between the debt and the company's equity (Prabowo & Sutanto, 2019). Excessive debt use increases risk but can also boost returns if appropriately managed. Research by Wibowo & Mekaniwati (2020) found that capital structure had a significant positive effect on stock returns, but Oktaviana et al. (2020) reported the opposite result.

H2: Capital structure affects stock returns

Price Earnings Ratio (PER)

PER is the ratio of the stock price to earnings per share, reflecting market expectations for the company's profit growth (Hikmawati et al., 2022). Asrini (2020) found that PER had a significant positive effect on stock returns, while Ester & Darwin (2019) stated that PER had no effect.

H3: Price-earnings ratio affects stock returns.

Net Profit Margin (NPM)

NPM shows the company's ability to generate net profit from each sale (Ristyawan, 2019). Several studies, such as Yuningsih (2020), found that NPM had a significant positive effect on stock returns, whereas Ristyawan (2019) found no effect.

H4: Net profit margin affects stock returns

Hypotheses Development

Based on previous theories and research, the research hypothesis is formulated as follows:

1. H1: Operating cash flow affects stock returns.
2. H2: Capital structure affects stock returns.
3. H3: Price-earnings ratio affects stock returns.
4. H4: Net profit margin affects stock returns.
5. H5: Operating cash flow, capital structure, PER, and NPM have a simultaneous effect on stock returns.

METHODS

Research Design

This study uses a quantitative approach, employing panel data regression. This method was chosen because the research data involved several food and beverage subsector companies observed during the 2019–2023 period, thereby providing a more comprehensive picture of the influence of independent variables on dependent variables.

Population and Sample

The research population is all food and beverage subsector companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. The sampling technique uses purposive sampling with the following criteria:

1. Food and beverage subsector companies were consistently listed on the IDX during the 2019–2023 period.
2. Companies that publish complete annual financial statements during the research period.
3. Companies that have research variables tailored to analysis needs.

Variables and Measurement

1. Dependent Variable (Y): Stock Return. In general, stock return is calculated by the formula:

$$\text{Return Saham} = \frac{P_t - P_0 + D}{P_0} \dots\dots\dots(1)$$

Source: Tandelilin (2010)

Description:

P_t = Stock price at the end of the period

P_0 = Stock price at the beginning of the period

D Dividends received during the period

2. Independent Variable (X):

- a. Operating Cash Flow (X_1)

This ratio is calculated as operating cash flow divided by total current liabilities.

$$\text{Operating Cash Flow} = \frac{\text{Operating cash flow}}{\text{Current Liability}} \dots\dots\dots(2)$$

- b. Capital Structure (X_2):

According to the debt-to-equity ratio formula, it is as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Own Capital}} \dots\dots\dots(3)$$

- c. Price Earning Ratio (PER) (X_3)

According to Price Earnings Ratio (PER), it can be formulated as follows:

$$\text{PER} = \frac{\text{Stock Price}}{\text{Earnings Per Share}} \dots\dots\dots(4)$$

- d. Net Profit Margin (NPM) (X_4)

According to the formula for calculating net profit margin, it is :

$$\text{NPM} = \frac{\text{EAT}}{\text{Sales}} \times 100\% \dots\dots\dots (5)$$

Data Collection

The data used are secondary, consisting of annual financial statements of companies in the food and beverage subsector for the 2019–2023 period. Data obtained from:

1. Indonesia Stock Exchange (www.idx.co.id),
2. The official website of each company,
3. Published financial statements.

Data Analysis

Data analysis is carried out through several stages:

1. Descriptive Statistical Analysis – describes the data of research variables.
2. Panel Data Regression Estimation Test – includes three approaches: the Common Effects Model (CEM), the Fixed Effects Model (FEM), and the Random Effects Model (REM).
3. Best Model Selection – using Chow Test, Hausman Test, and Lagrange Multiplier Test.
4. Classical Assumption Test – includes multicollinearity, heteroscedasticity, and autocorrelation.
5. Hypothesis Test – using:
 - a. T-test to test for partial influence.
 - b. F test to test the simultaneous influence.
6. Coefficient of Determination (R^2) – to measure the ability of independent variables to explain variations in stock returns.

RESULTS

Descriptive Analysis

Descriptive analysis was conducted to describe the distribution of research variables, including Operating Cash Flow, Capital Structure (DER), Price Earnings Ratio (PER), Net Profit Margin (NPM), and Stock Return, for food and beverage subsector companies for the 2019–2023 period. The descriptive statistics show variations in the minimum, maximum, average, and standard deviation. This reflects differences in performance across companies, including liquidity, capital, and profitability.

Data Analysis Result

The panel regression model was selected using the Chow test, the Hausman test, and the Lagrange Multiplier test. Based on the test results, the best model chosen is the Fixed Effect Model (FEM). The classical assumption tests indicate no evidence of multicollinearity, heteroscedasticity, or autocorrelation, so the regression model is feasible.

Research Analysis

Table 1. Panel Data Regression Test Results (Fixed Effect Model)

Independent Variables	Coefficin	t-Statistics	Prob.	Remarks
Operating Cash Flow (X1)	-0,0021	-0,845	0,398	Insignificant
Capital Structure (DER) (X2)	0,1356	2,487	0,016	significant
Price Earning Ratio (PER) (X3)	0,0724	2,891	0,005	significant
Net Profit Margin (NPM) (X4)	0,2487	3,452	0,001	significant
C (Konstanta)	-0,436	-1,872	0,065	-

Source: EViews output (processed, 2025)

Table 2. Test F Results (Simultaneous)

Root MSE	199692669	R-squared	0.807344
Mean dependent var	48045652	Adjusted R-squared	0.751474
S.D. dependent var	45671801	S.E. of regression	22768467
Akaike info criterion	41.52400	Sum squared resid	5.1840309
Schwarz criterion	42.18573	Log likelihood	-2669.060
Hannan-Quinn criterion.	41.79288	F-statistic	14.45038
Durbin-Watson stat	1.810422	Prob(F-statistic)	0.000000

Source: EViews output (processed, 2025)

The results show that Operating Cash Flow does not have a significant effect on Stock Return. On the other hand, DER, PER, and NPM have a significant effect. Simultaneously, the four variables had a significant effect, with the model explaining 75% of the variance.

DISCUSSION

Analysis of the Influence of Operating Cash Flow on Stock Returns: Growth Priority vs Liquidity

The test results showed that Operating Cash Flow did not have a significant influence on stock returns, so H1 was rejected. Theoretically, operating cash flow is the lifeblood of business continuity. However, in Indonesia's capital market, in the consumption sector, investors seem to view operating cash as an internal indicator that does not directly reflect secondary-market stock price appreciation. Logically, high cash flows that are not accompanied by expansion or dividend distribution are often considered idle cash.

These findings support a study by Bungadira et al. (2024), which states that cash efficiency is not always responded to positively by the market when investor expectations are more focused on profit growth. This explains that in the defensive sector, cash resilience is considered a given rather than a competitive advantage that drives stock prices higher.

Analysis of the Influence of Capital Structure on Stock Returns: The Effect of Leverage in Value Optimization

The second hypothesis (H2) is empirically supported, indicating that Capital Structure (DER) has a significant effect on stock returns. This phenomenon shows that the company's wealth structure is a crucial signal for investors in assessing issuers' risk profiles and funding policies.

In accordance with the trade-off theory, companies that can optimize debt for productive activities will increase Return on Equity, which is then responded to positively by the market. Conversely, too high debt can trigger fears of default. The influence of DER in this study aligns with Wibowo & Mekaniwati (2020), who emphasized that a strategic debt policy in the manufacturing sector is a modality to increase economic scale, which ultimately encourages stock returns.

Analysis of the Influence of Price Earnings Ratio on Stock Returns: Future Growth Expectations

Empirical support for H3 indicates that the Price-to-Earnings Ratio (PER) has a significant effect on stock returns. From the perspective of Signalling Theory, PER serves as a communication mechanism regarding future profit growth expectations. Investors are willing to pay a higher price for every dollar of profit generated if they predict sustainable growth. These results align with Asrini (2020), who stated that PER is the strongest market psychological indicator.

Logically, during the challenging 2019-2023 period, stocks with a competitive PER are considered to have a "margin of safety" or undervalued potential that attracts investors, thereby encouraging stock price increases.

Analysis of the Influence of Net Profit Margin on Stock Returns: The Dominance of Profitability Efficiency

The fourth hypothesis (H4) is accepted, with the NPM result having a significant effect on stock returns. NPM is a manifestation of operational efficiency and market competitiveness. The ability of food and beverage companies to maintain net profit margins amid fluctuations in raw material prices is a signal of management quality that investors respond to strongly. These findings strengthen Yuningsih (2020) research and affirm that profitability remains the "commander-in-chief" of the company's fundamentals. The more effectively the company converts sales into net profit, the stronger the investment attraction it creates, which directly correlates positively with the returns received by shareholders.

CONCLUSION

This study concludes that the mechanism for the formation of stock returns in the food and beverage subsector on the Indonesia Stock Exchange for the 2019–2023 period is primarily influenced by profitability indicators and market valuation, rather than operational cash liquidity. Partially, the variables of Capital Structure (DER), Price Earning Ratio (PER), and Net Profit Margin (NPM) have been proven to have a significant positive influence on stock returns. This confirms that investors tend to reward companies that can optimize leverage for profit growth while maintaining net margin efficiency.

In contrast, Operating Cash Flow does not show a significant influence, suggesting that cash availability without a productive allocation strategy is not a value signal to the market. Simultaneously, integrating these four variables provides strong explanatory power for stock return volatility, thereby strengthening the relevance of signal theory in the Indonesian capital market.

LIMITATION

The researcher is aware of several limitations that may affect the generalizability of this study's results. First, the research focuses on one sub-sector (food and beverage), so these findings may not fully reflect the behavior of other sectors with different capital characteristics. Second, the use of secondary data, such as annual financial statements, may not capture daily stock price fluctuations driven by non-fundamental market sentiment.

Finally, the variables used are limited to the company's internal factors, so they do not account for external factors such as inflation, interest rates, and fiscal policy, which were highly dynamic during the 2019–2023 period. Nevertheless, the panel data regression methodology used has minimized estimation bias through rigorous testing of classical assumptions.

RECOMMENDATIONS

Based on these findings, the company's management is advised to prioritize improving operational efficiency to maintain net profit margins, which remain the main attraction for shareholders. For investors, fundamental analysis using PER and NPM ratios must remain the primary tool for stock valuation.

For the next researcher, it is recommended to expand the sample scope in the manufacturing sector and to integrate macroeconomic variables or Environmental, Social, and Governance (ESG) factors as moderation variables to deepen understanding of the dynamics of stock returns in the future.

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