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The effect of Profitability and Stock Split on Stock Return

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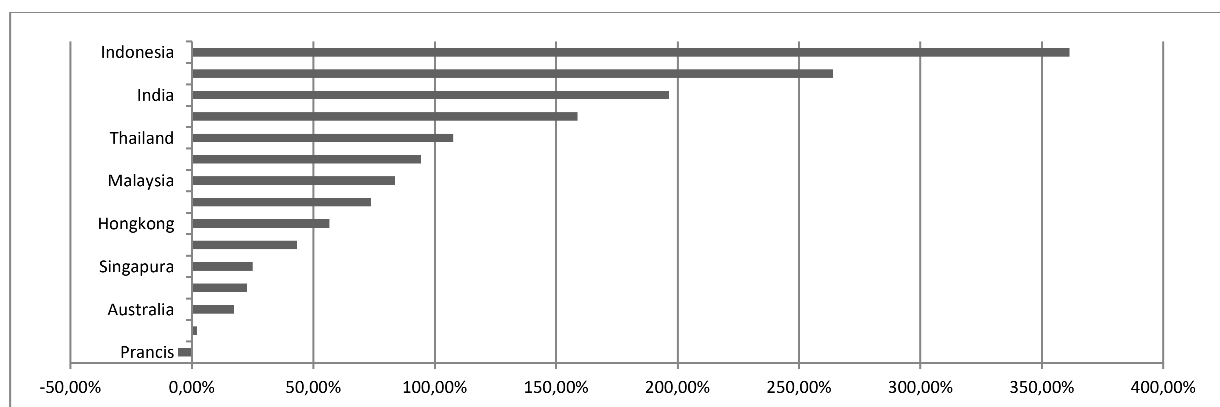
Abstract: Purpose of the study is to examine the effect of profitability and stock split on stock returns. This study is carried out on companies that undertake stock split on Indonesia Stock Exchange (IDX). The sampling technique used is purposive sampling. The study involves 41 companies that conduct a stock split on the Indonesia Stock Exchange. Data analysis techniques used in this research is linear regression. The result of this study shows that the profitability proxied using the earning per share indicator and return on investment has a significant effect on stock returns. Meanwhile, the stock split is also found has a significant effect on stock return. The result of this study indicates that companies that have higher profitability will provide high stock returns to shareholders. Besides, companies that conduct stock splits receive higher stock returns than companies that are not.

Keywords: *Earning per share (EPS), Return on Investment (ROI), Stock Split, Stock Return*

Introduction

The capital market provides economic opportunities for investors to obtain a high level of income. However, it also has a high level of risk. Therefore, it is necessary to consider many factors before making an investment decision in the capital market (Kusuma & Priantinah, 2012). According to Bisara & Amanah (2015), a stock return is an expected rate of return on investments made in shares or groups of shares through a particular portfolio. The return can be either realized return that occurred or expected return that has not yet occurred but which are expected to occur in the future. In the last ten years, the Indonesian capital market's return has grown by 361.43%, the second place is the Philippines by 264.01%, and the third is India by 196.51%. The following graph shows the growth of capital market returns in the last ten years in several countries:

Figure 1. Capital Market Return



Several listed companies in Indonesia Stock Exchange (IDX) have a long-term investment return above 40 per cent. There are also as many as 67 per cent of the total issuers have investment returns more than average deposit return, which is only seven per cent per year. Companies that fall in LQ 45 category are 45 companies selected through several selection criteria. It refers to the listed companies with the highest liquidity and market capitalization on IDX. Besides, the company's financial situation and growth prospects are also considered in categorizing listed companies into LQ 45. Information stated in Table 1 is ten LQ 45 corporations that possess the highest return in 2014.

Table 1. Top Ten Return of LQ 45

No	Company	*Return* (%)
1	Adaro Energy Tbk	191.07
2	Aneka Tambang (Comapny) Tbk	179.37
3	Bukit Asam (Persero) Tbk	102.55
4	Vale Indonesia Tbk	98.24
5	Pakuwon Jati Tbk	53.33
6	Elnusa Tbk	43.81
7	Indofood Sukses Makmur Tbk	42.59
8	Bank Tabungan Negara (Persero) Tbk	40.98
9	Waskita Karya (Persero) Tbk	36.81
10	Telekomunikasi Indonesia (Persero) Tbk	36.81

However, 16 companies of LQ 45 in 2014 experienced a decrease in return (negative). An abnormal event occurs where companies that have excellent financial performance should be able to provide a positive return. Information stated in Table 2 is ten LQ 45 companies that experienced the lowest return in 2014.

Table 2. Top ten Negative Return of LQ 45

No	Company	*Return* (%)
1	Perusahaan Gas Negara (Persero) Tbk	-15.53
2	Astra Agro Lestari TBK	-16.91
3	Sawit Sumbermas Sarana Tbk	-17.56
4	Global Mediacom Tbk	-23.35
5	Semen Indonesia (Persero) Tbk	-24.83
6	Surya Citra Media Tbk	-26.77
7	Indocement Tunggal PrakasaTbk	-28.20
8	Indofood CBP Sukses Makmur Tbk	-31.45
9	Lippo Karawaci Tbk	-36.11
10	Sri Rejeki Isman Tbk	-38.23

Investment in the stock market, financial performance and corporate actions are fundamental factors taken into consideration by investors. In assessing the economic performance of a company, investors must analyze the company's financial statements. It will help investors in deciding whether the company's shares are worthy or not to be purchased. One way to analyze the company's financial performance is to analyze the company's financial ratios. Through financial ratios, investors can identify the weaknesses and strengths of the company. Bisara & Amanah (2015) states that financial ratio analysis is an analysis based on historical data which has the primary objective to indicate company performance in the future. The company's financial performance will be reflected in stock prices. It means that if investors have an affirmative response to stock prices, it is generally associated with financial performance (Wira, 2012). Company financial performance is an essential consideration for investors. When the financial performance of a

company is getting better, the increase in stock prices and profit (Return) of shares is expected by investors. High stock return is one of the motives for investors to invest their funds in the capital market (Bisara & Amanah, 2015).

One of the corporate action conducted in the capital market is stock splits. One of the purposes of a stock split is to make stocks appear more attractive to investors; therefore, the market will respond positively to announcements of stock splits (Tanjung, 2007). Guo et al. (2008) and Tanjung (2007) argue that there two grand theory that explains why companies conduct stock splits, namely; signalling theory and trading range theory. First, Signaling Theory states that stock split is a management effort to convey beneficial internal information about the company's performance. Second, trading range theory, which states that stock split is a management effort to rearrange the price of a single share at lower price limits. Those arguments are in line with the perspective of Ikenberry et al. (1996) who assume that signalling and trading range has been the main explanation of stock split in financial literature since the publication of the classic paper by Fama et al. in 1969. Furthermore, Ikenberry et al. (1996) also argue that signalling and trading ranges do not stand alone, meaning that stock split decisions will be taken by companies based on which is more profitable for the company between selling shares in a particular range (trading range) or stock split is decided based on company performance (Signaling).

According to Hartono (2016), the stock split phenomenon is considered as a positive signal because the company managers will convey good prospects from the company to the public. The reason why this signal is supported is the fact that the company that conducts stock split is a company that has excellent performance. That argument is equivalent to the idea of Fahmi (2012), which states that a company that conducts a stock split shows a depiction of a company that has an excellent financial performance. The result of the Tanjung (2007) found that average higher profit growth measured the financial performance of companies that did not do split stock. Husnan (2001) argues that if the company's ability to generate profits increases, the stock price will also increase. With the increase in the company's stock price, the stock returns obtained by investors will also be higher. Hanafi (2005) found that a company that has an excellent financial performance generate a higher level of return. The companies that conduct stock split will have an excellent financial performance which ultimately will provide a positive return for investors. However, based on the Indonesia stock exchange in 2014, among the five companies that conduct stock split, only three companies provide positive returns and otherwise, two companies provide negative returns. The following is a table of return of companies that conducted stock split in 2014 on IDX.

Table 3. Stock Split and Return

No	Company	*Return* (%)
1	Alumindo Light Metal Industry Tbk	-15.46
2	Indah Alumunium Industry Tbk	15.13
3	Surya Toto Indonesia Tbk	10.42
4	Centris Multipersada Pratama	-38.00
5	Multi Binta Indonesia	0.42

Marwata (2001) study indicates that the practice of stock split in Indonesia stock exchange (IDX) is an attempt to deliver signal to the investors regarding the good news of the company's financial health by the management. Besides, there was also an effort to increase stock trading by directing stock price into a specific range that is not too expensive (trading range). Indah has studied the relationship of stock split and stock liquidity (Tanjung, 2007). The results showed that the investors respond to the announcement of the stock split. The investors' reaction is because of understanding the great prospect of a company in the future signalized by a stock

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split. Thus, the stock split phenomena will deliver a signal of additional information about the company's financial performance. Hence, the companies that conduct stock split have excellent financial performance so that additional information will reinforce investors' confidence to make stock trading. The financial performance is attributed by Return on Investment (ROI), Return on Equity (ROE), Net Profit Margin (NPM), Earning per Share (EPS), Price to Book Value (PBV) Hermi (2011).

Aduda (2010) has carried out research entitled "Market Reaction to Share Split Empirical Evidence form Naobi Stock Exchange". The finding indicates that the capital market reacted positively to the activities of the stock split. It was indicated by an increase in the volume of stock trading around the announcement of the stock split. Besides, it was also found a positive average return regarding the stock split. Isnurhadi (2010) studied the impact of stock performance before and after conducting a stock split. The results showed that stock split has a significant influence on returns. Accordance with the signalling theory, stock split gives investors information about the prospect of a substantial increase in future returns.

Literature Review And Hypothesis

Profitability Ratios

Profitability ratios are essential for all users of financial statement, wherein the company's ability in obtaining profits can be observed from the ratio. For investors, forecasting profit is essential as a material consideration in the placement of investments in a company. As stated by Syafri (2015), profitability ratios depict the company's ability in gaining profits through all available capabilities and resources, such as sales, cash, capital, number of employees, and others. Gitman (2003) said, "Profitability is the relationship between revenues and cost generated by using the company’s asset- both current and fixed- in productive activities". The definition illustrates that profitability has a relationship with income and cost generated through the use of some company's assets, both current asset and fixed-asset.
Furthermore, Van Home & Wachowicz (2006) argued there are two kinds of profitability ratios; first, a ratio that shows profitability related to sales, and the second, ratio that shows profitability concerning investment. The profitability in relation to sales consists of gross profit margin and net profit margin. The profitability in relation to investment consists of return on total assets and return on equity.

Earning Per Share

Earning per share is an essential component that has to be concerned in the company's analysis. The information on the company's EPS manifests the number of the company's net profit that is fixed to be distributed to all shareholders. According to Fahmi (2012), earning per share is a form of giving benefits to shareholders from each share owned.
The formula is as follows (Fahmi, 2012):

$$EPS = \frac{EAT}{Jsb}$$

Notes:
EPS = earning per share
EAT = earning after tax
Jsb = average outstanding shares

In the opinion of Sinambela (2013), an indicator of financial performance in which frequently used by investors is Earning per Share (EPS) ratio. Earning per share is the number of profits achieved for each common stock. In addition, the earning per share can be used as an indicator of the average company's value to measure the achievement in reaching profits for the shareholders. Investors have various objectives for conducting investment in the capital market; one of them is to gain profits from their investment in the form of increase in stock price and dividend. As the fundamental objective of a company is maximizing profits, thus every policy related to boost stock price regularly affiliated with the company's ability to increase prosperity both in increasing the company's value and the shareholders' success.

Return on Investment

According to Fahmi (2012), Return on Investment (ROI) is utilized to see to the extent to which an investment that has been admitted is able to provide a return in profits following the expectation. Similarly, ROI was defined by Syafri (2015) as a ratio that could show a company's ability in gaining profits in the whole, including total assets of the company. The formula for ROI is as follows (Syafri, 2015):

Return on Invesment (ROI) = (Earning After Tax) / Equity

ROI is a measurement of the entire company's ability to generate profits based on the total assets available. Syamsudin asserted that these increasing profits give a positive impact on a company's financial performance in reaching the objective to maximize the company's value that will be nicely responded by investors. Accordingly, the demand for the stock will grow. It increases the company's stock prices which ultimately increase stock returns as well (Kusuma & Priantinah, 2012). Furthermore, Plewa found about 85% of companies calculate ROI based on several business segments as part of the performance appraisal process (Kusuma & Priantinah, 2012). Managers are highly considered the ROI since it pays close attention to the amount of investment and the activities that gain profits. The manager's capability to manage asset in potential investments that produce profits has an essential role in the company's performance to increase profits. Hence, the ROI ratio can be applied as an indicator to assess the company's performance. Investors also have an interest in the level of ROI in investment as by observing ROI, the quality of the company's performance will look. If the performance is excellent and generates high net profits on the optimal use of the total company's assets, then, that determines the company's value (Kusuma & Priantinah, 2012), the high value of the company will get a good response from the market, and it will determine the increasing stock return. When stock price rises, the stock return obtained by investors rises as well.

Stock returns

Samsul (2006) defines stock return as revenues that are stated in the percentage of the initial investment capital. The investment revenues of this stock include profits of stock trading, where generating profits is called as capital gain and getting loss called a capital loss. Other than capital gain, investors will also gain cash dividend. According to Hartono (2016), a stock return is a rate of yield stock on the investment made by the investor. Stock return can be classified into two types; realized return and expected return. Realized return refers to the return that has occurred, and it is measured based on historical data. Realized that return becomes essential since it is utilized as the performance measurement of the company. Besides, it is beneficial as the primary indicator of expected return and future risks as well. The expected return is a predicted return that will be obtained by the investor in the future.

Contrary to realized return which is already occurred, the expected return does not occur yet. In this research, the stock return used is capital gain (loss). Capital gain (loss) is a difference in profit or loss from the current investment price relative to the price of the previous period. If the investment price is now higher than the previous period, it means there is capital gain. On the other hand, if the investment price is now than in the last period, there will be a capital loss. An actual return is formulated as follows (Hartono, 2016):

Actual Return = (Pt-(Pt-1))/(Pt-1)
Notes: Pt = Stock Price in t-Period
Pt-1 = Stock price in the previous period

Stock Split

Hartono (2016) defined Stock Split is an action of splitting a sheet of stock into n sheet of stocks or multiple stocks. After breaking the sheet of stock, a new stock's price is 1/n from the previous stock price. Subsequently, Hadi (2015) elucidates stock split is breaking the nominal stocks into smaller nominal

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value. The stock split does not affect paid-up capital but reduces the nominal value of stocks. Thus, the number of outstanding stocks becomes more. From the first, the stock split has been an anomaly in the financial world (Grifin, 2010), where, stock split itself is not directly related to creating the company's value. The investors see the stock split as affirmative action and portray the company's performance. A company that conducted stock split is indicated that the company has a better performance compared to a company that does not conduct stock split. Research conducted by Jain & Robbani (2011)., pointed out that the market made a positive response to the announcement of stock split in New York Stock Exchange (NYSE) of America from 2004 to 2011. Under that conclusion, Copeland also found that the only companies with a high prospect that capable of conducting stock split, and as a consequence, the markets would nicely respond it and upgrade their security value (Hartono, 2016).

Conversely, the companies with a not good prospect would attempt to deliver an invalid signal through a stock split. Instead, it will experience a decrease in their security value. Hartono (2016) assumed the stock split phenomena as a positive signal because, in that event, the company's manager will provide good prospects from the company to the public. The reality proves this case that the companies which conducted stock split had an excellent performance. Similar conclusion is drawn by Fahmi (2012). He concluded that the companies that conducted stock split are indicated having good financial health.

That concept was similar to what Ikenberry et al. (1996) conveyed, Signaling and Trading Range has become a fundamental explanation of stock split in financial literature since the publication of the classic paper by Fatma et al. in 1969. Signalling points out that stock split is a management's attempt to convey favourable private information about the current value of the company (Ikenberry et al., 1996). Further, Ikenberry et al. (1996) explicated this signalling theory of stock split with asymmetric information, that is an asymmetry between management and investor, where management authorizes more information about the company's future since they have the capability in making decisions in transaction and investment instead of the outsider (investor). Trading range asserts that stock split is a management effort to rearrange a stock price at a lower price limit (Ikenberry et al., 1996). McNichols and David admit this concept of the trading range (Tanjung, 2007). Also, Lakonishok and Lev by their research indicated a trading range. Similar to that, McGough also revealed that companies would conduct stock split when the stock price is higher than the price of other companies in the same kind of industry (Tanjung, 2007). Reducing the stock value will make investors more interested in that stock. Hartono (2016) assumed the stock split phenomena as a positive signal because, in that event, the company's manager will provide good prospects from the company to the public. The reality proves this case that the companies which conducted stock split had an excellent performance. The investors and observers generally have a positive view on every companies that conduct stock split, especially in term of short-term view. The company's decision to carry out stock split can be depicted the financial health of the company, in short, it is great (Fahmi, 2012). When markets reacted to a stock split event, it does not guarantee the event has no economic value, but the markets recognize the company's prospect signalized by the stock split conducted. Just a few companies are capable of conducting a stock split. They are the companies that genuinely possess a signified condition will achieve a positive response. The companies that deliver invalid signal through stock split will consequently get negative impact in the market (Hartono, 2016).

Profitability and Stock Return

The financial performance of the company can be a direction of the ups and downs of a company's stock. According to Basri (2002), financial performance is a set of financial activities on a particular period recorded in the financial statement, including balance sheet and income statement. A profitability

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ratio is a key that can assist in revealing how the company's performance related to generating profits for the company. As stated by Syafri (2015), profitability ratios depict the company's ability in gaining profits through all available capabilities and resources, such as sales, cash, capital, number of employees, and others. Buying a stock means purchasing part of a company's wealth or profits as well as other rights attached to it. Therefore, the stock price is mostly determined by the reputation or performance of the company itself. The increasing demand for stocks in the company indicated that the company's financial performance is powerful for long-term prospects and will produce a better chance.

Conversely, stock prices will grow less if the demand for these stock decreases (Aditya, 2014). In the opinion of Sinambela (2013), an indicator of financial performance in which frequently used by investors is Earning per Share (EPS) ratio. Earning per share is the number of profits achieved for each common sheet of stock. Besides, the earning per share can be used as an indicator of the average company's value to measure the achievement in reaching profits for the shareholders of the company. According to Syafri (2015), earning per share refers to the ratio that shows how much ability per share generates profit.

The measurement of the company's financial performance is presented in the income statement. Net income (profit) is often used as a measure of a company's performance, such as ROI and EPS (Prastowo & Julianti, 2002). According to Fahmi (2012), Return on Investment (ROI) is utilized to see to the extent to which an investment that has been admitted can provide a return in profits ROI is a measurement of the entire company's ability to generate profits based on the total assets available on the company. Syamsudin asserted that these increasing profits give a positive impact on the company's financial performance in reaching the objective to maximize the company's value that will be nicely responded by investors. Accordingly, the demand for the stock will grow. It increases the company's stock prices which ultimately increase stock return as well (Kusuma & Priantinah, 2012). ROI ratio can be applied as an indicator to assess the company's performance. Investors also have an interest in the level of ROI in investment as by observing ROI, how the quality of the company's performance will look. If the performance is excellent and generates high net profits on the optimal use of the total company's assets, then, that determines the company's value (Kusuma & Priantinah, 2012). The high value of the company will get a good response from the market, and it will determine the increasing stock return. When stock price rises, the stock return obtained by investors rises as well. The companies with great performance will have stock prices that simultaneously rise. With an increase in stock prices, the opportunity for investors to gain returns will be higher as well (Rusliati & Farida, 2010). Husnan (2001) assumed if the company's ability to achieve profit grows, the price of the stock will increase. Accordingly, if the stock price of a company increases, the stock return will be obtained by investors will be higher as well. Hadi (2015) postulated return is the rate of profits that owned and enjoyed by investors for their investments. Then, the first hypothesis is formulated in an alternative hypothesis format as follows H1: There is an impact of profitability on the stock return of company which conducted stock split.

Stock Split and Stock Return

A stock split is also defined as an act of breaking the nominal value of stock becomes smaller fractions, and the number of stock becomes more (Hartono, 2016). Two main explanations explicate why companies conduct stock split; Signaling theory and Trading Range Theory. The first, Signaling Theory suggests that stock split is a management’s attempt to deliver beneficial internal information about the company's performance. Secondly, trading Range Theory asserts that stock split is a management attempt for rearranging a sheet of the stock price at a lower price boundary (Guo et al., 2008; Ikenberry et al., 1996; Tanjung, 2007). Rusliati & Farida (2010) has conclude that The market reaction to stock

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split can be observed from the price changes. Then, the changes of stock will influence on the actual return of stocks through capital gains. According to Sutrisno et al. (2000), a company that conducted stock split experienced price increase following the stock split. It is occurred because of the increasing number of shareholders and transactions in the capital market. With the increase in the company's stock price, the stock returns to be obtained by investors will also be higher (Husnan, 2001).

In conclusion, Isnurhadi (2010) asserted that a stock split event exerts a significant influence on stock return. It is following what Signaling Theory has conveyed; stock split provides investors with information about the prospect of increasing returns in the future. Based on the rationale above, the second hypothesis is formulated in an alternative hypothesis format as follows H2: There is an influence of stock split to stock return in the company that exercised stock split.

Research Methods

Population and Sampling

The population is a generalization area consisting of: object or subject that have specific quantities and characteristics determined by the researcher to be studied and draw conclusion then (Sugiyono, 2016). The populations of this research are all listed issuer companies that conducted stock split in Indonesia Stock Exchange within ten years from 2005 to 2014. For the total population of all issuers conducting Share Split on the IDX, there are 87 companies. Sampling is components of the number and characteristics possessed by the population (Sugiyono, 2016). To determine the sample, the researcher used non-probability sampling. According to Sugiyono (2016), non-probability sampling is a sampling technique that does not provide equal opportunities for each element (member) of the population to be selected as a sample member. The sample is determined by purposive sampling. Purposive sampling is one way of sampling technique that relies on specific considerations (Sugiyono, 2016). These considerations are 1) The data of issuer's financial ratios are entirely available, 2) The data of issuer's stock prices are utterly accessible during research, 3) When conducting stock split, the company does not carry out other corporate actions. Based on ICMD (Indonesia Capital Market Directory) from 2005 to 2014, there are 87 companies have conducted stock split. For that reason, the researcher decided to use this number of companies but reduced by the sample withdrawal criteria above, which were 41 companies.

Operationalization of Variables

There are three variables used in this research, namely profitability, stock split and stock return. Profitability and stock split are treated as the independent variable. Meanwhile, the stock return is acting as the dependent variable. The variable operational in detail is presented in table 4.

Table 4. Variable Operalizational

Variabel	Variabel Concept	Indicator
Profitability	Profitability Ratio describes the company's ability to make a profit through all the capabilities, and available resources such as sales, cash, capital, number of employees, etc. (Sofyan Syafri 2015)	EPS = $\frac{earning\ after\ tax}{average\ oustanding\ share}$ ROI = $\frac{Earning\ After\ Tax}{Equity}$
Stock Split	Share Split is breaking up a sheet of	Before Stock Split = 0

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	shares into n shares. Price per new share after stock splitting is 1 / n from the previous share price. (Jogiyanto : 2016)	After Stock Split = 1
Stock Return	Stock Return is the level of stock returns on investments made by investors. (Jogiyanto :2016)	Actual Return = $\frac{Pt-(Pt-1)}{Pt-1}$

Analysis

Data analysis, this research applied multiple linear regression and simple linear regression analysis. Multiple linear regression analysis is employed to test the hypothesis of profitability's impact on stock return, where profitability variable is proxy using two indicators; EPS and ROI. Whereas, a simple linear analysis utilized to test the hypothesis of stock split's impact on stock return. Before performing multiple linear regression analysis and simple linear analysis, the first classical assumption test consists of a normality test, multicollinearity, autocorrelation and heteroscedasticity were conducted.

Result

Descriptive Statistics Analysis

Research is using the data that is in the published in the report of the financial year by the Stock Exchange Indonesia through a statistical, financial year. The results of the analysis of the descriptive to the data are presented in the table below ;

Table 5. Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
EPS	41	-1611,00	2184,00	235,8049	502,68635
ROI	41	-272,00	3207,00	872,3293	726,87822
Stock Return	41	-2468,00	4655,00	304,4878	1143,81435
Stock Split	41	0	1	,50	,503

The data is obtained from from periode of 2004 to 2015. The first independent variable namely Earning Per Share show that the value of earning per share minimum that is represented by the companies listed MIRA amounted to -117% at the year 2008, while the value Earning Per Share maximum which is represented by the companies listed AUTO by 1591 % in the year 2011 with a standard deviation of 502.68635. Independent variable second is Return on Investment shows that the value of Return on Investment minimum, which is represented by the companies listed SMAR amounted to -2.72% in the year 20 05. In comparison, the value of Return on Investment maximum, which is represented by the companies listed SCMA amounted to 32.07 % on the year 2012 with s standard deviation of 726.87822. Recently, a variable dependent form of Stock Return which indicates that the value of Stock Return the minimum represented by the companies listed JRPT of -24.68% in the year 2006, while the value of Stock Return the maximum which is represented by the companies listed KKGI amounted to 46.55 % in the year 2010 with s standard deviation of 1143.81435. During the observation period, data research was normally distributed. Based on the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test found no variables that deviate from classical assumptions.

Hypothesis testing

The data analysis results using SPSS (Statistical Product and Service Solutions) are given below:

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Table 6. Regression Outcome

Model	Unstandardized Coefficients		Standardized Coefficients	**T**	**Sig**
	B	Std. Error	Beta		
(Constant)	-5,385	1,019		-5,284	,000
EPS	,025	,003	,671	8,335	,000
ROI	,323	,090	,288	3,577	,001

a. Dependent Variable: Return

According to the statistical test results, it is found that the t-statistic value obtained by EPS is 8.335. This value would be compared with the value of t-table in distribution t table. With α=0,05, df=n-k-1=62-2-1=59, in one-side testing the t-table value obtained of 2.001. By these values, t-statistic reached an amount of 8.335, which is greater than t-table of 2.001. Under the hypothesis testing criteria, that H0 is rejected and Ha is accepted, means the profitability exert significant influence on stock return in the company conducting stock split in Indonesia Stock Exchange. Similarly, in the testing of Return on Investment indicators based on statistical test results showed that t-statistic value obtained by ROI is 3.577. This value would be compared with the value of t-table in distribution t table. With α=0,05, df=n-k-1=62-2-1=59, in one-side testing the t-table value obtained of 2.001. By these values, t-statistic reached an amount of 3.577, which is greater than t-table of 2.001. Following the hypothesis testing criteria, that H0 is rejected, and Ha is accepted, it means the profitability exerts significant influence on stock return in the company conducting stock split in Indonesia Stock Exchange.

Discussion

Above all, it denoted that before making-decision to invest in a particular stock, the investors would consider the company's profitability in the stock exchange. The investors rely on the company's profitability since it can be used as the direction of the ups and downs of the company's stock. When the financial performance of the company is excellent, investors' expectations of getting a higher return in the future will also increase. Aditya (2014) assumed that the increasing demand for stocks in the company indicated that the company's financial performance is powerful for long-term prospects and will produce a better chance. Conversely, stock prices will grow less if the demand for these stock decreases. The increasing stock prices will grow investors' opportunity to gain stock return higher. The results of this study support the research conducted by Ni Luh et al. (2016), which stated that profitability significantly affects stock returns. The increasing Earning Per Share (EPS) will also increase stock return which eventually improves the company's value and the prosperity of shareholders. Earning per share influences stock return, and may affect the investors in making-decision in investment. Hence, earning per share is highly considered by investors when they were going to conduct a transaction in stock in a company (Hermi, 2011).

According to Sunardi (2010), the return on investment has several disadvantages. ROI does not concentrate on the potential risks faced by the company and the capital cost. Moreover, it only pays attention to the results (company's profits) so, it is difficult to recognize whether the company succeeded in creating its value or not. The value of the company itself becomes a reference for the investor in investment. Therefore, investors are required to observe and estimate the value of the expected company. Hence, it can be used as consideration for the investor in making a decision to invest. Besides, it could be a reason why the Return on Investment (ROI) has a smaller impact compared to Earning Per Share (EPS). By splitting stocks, the investors are encouraged to make more investments through buying stocks as the stock prices at a

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certain level is relatively cheaper. The rise of the stock transaction will make the price of the stock in the stock exchange grow.

Moreover, if it occurred, the investors absolutely will obtain more high stock returns. As what Hernoyo (2013) have conveyed, stock split significantly gives influence on stock returns. In other words, this case agreed with the Signaling Theory. That stock split supply investors with information about the prospect of substantial growth in future returns. That increased return is a signal of short-terms and long-terms profit. The management has alternative information about the company's prospect than the outsiders or investors, through presenting signal that companies have an excellent condition (Isnurhadi, 2010).

Conclusion

Based on the results and discussion explicated in the previous section, the researcher draws some conclusion as follows: In sum, profitability that is denoted with Earning Per Share (EPS) and Return on Investment (ROI) exert significant influence on stock return in the company conducting stock split in Indonesia Stock Exchange. It means the profitability significantly determines stock returns. A stock split has a significant effect on stock return in the company that conducted stock split in Indonesia Stock Exchange. This case agreed with the Signaling Theory. That stock split supply investors with information about the prospect of substantial growth in future returns. That increased return is a signal of short-terms and long-terms profit.

The profitability ratios will be an indicator of the value of a company if the profitability value is satisfactory, it will awards company with high rate. Furthermore, in this case, it can be a high expectation for investors towards the company. Therefore, the company's management consistently keeps and grows the company's performance up. One of the efforts is by increasing the earning. Earning will directly determine the EPS and ROI value of the company, The higher-earning value, the more EPS and ROI values increase. And these will influence on the increase of stock return expected by investors as well. Generally, the companies that conduct stock split experience increasing stock return after doing the stock split. It is because the stock prices grow less at a certain level. Then, there will be more investors to make a transaction in stocks. The increased demand for a stock will encourage an increasing stock price itself, which at last, it will cause stock return and the attraction of investors to grow up. Therefore, the company's management may consider conducting stock split as an attempt to improve transaction in stock in the stock exchange until the liquidity grows high. The companies that conduct stock split have excellent financial performance. Then, investors can take advantage of the stock split event as one consideration to decide on conduct transaction in stocks in the stock exchange. At last, the researcher suggests abnormal return or Average Abnormal Return (AAR) can be applied to determine the value of stock returns. Besides, for further potential research, the population should be added with companies that do not conduct stock split.

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