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Research Article

Profitability, Liquidity, Leverage, and Earnings Growth

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Abstract*:* Earnings Growth is still an interesting issue to research, without exception in the food and beverage industry. The purpose of this study is to determine the factors that are thought to influence earning growth in food and beverage companies listed on the Indonesia Stock Exchange with an observation period of 2015-2018. The research method used is Panel Data Regression Analysis and the results show that only Net Profit Margin (NPM) and Current Ratio (CR) affect Earning Growth (EG) while the Debt to Asset Ratio (DAR) does not affect on Earning Growth. (EG).

Keywords: Earning Growth, Net Profit Margin, Current Ratio and Debt to Asset Ratio

1. Introduction

A company has its way of being considered a perspective company. A company that is considered prospective can be defined as a company that provides profit or profit in the future. A well-performing company will have high profits. In the investment world, high returns can be seen from the company's performance, where the higher the expected profit, the better the performance. Earnings growth will certainly affect the investment decisions of investors and potential investors who will invest in the company, as well as creditors who will provide loans to the company. Good earning growth explains that the company has good finances, which in turn will increase the value of the company because the number of dividends to be paid in the future depends on the condition of the company as seen from the company's financial performance. Earnings growth can be seen by various factors, one of which is internal factors, namely by looking at the company's financial performance.

Earnings growth is still an interesting issue, without exception in the food and beverage industry. One of the food and beverage industry companies in the 2015–2018 period, there was a fluctuation in earnings growth, including PT. Indofood CBP Sukses Makmur Tbk whose earning growth was 0.1356, while PT. Siantar Top Tbk, whose earnings growth was 0.5020. In 2016 PT. Indofood CBP Sukses Makmur Tbk has increased to 0.2422, while PT. Siantar Top Tbk has decreased quite rapidly to -0.0621. In 2017 PT. Indofood CBP Sukses Makmur Tbk has decreased to -0.0243, while PT. Siantar Top Tbk has increased to 0.2403 Furthermore, in 2018 PT. Indofood CBP Sukses Makmur Tbk has increased from -0.0243 to 0.3149, and PT. Siantar Top Tbk has decreased to 0.1808. The phenomenon that occurs in the data above is precisely the growth in profits of a food and beverage company which is illustrated by PT. Indofood CBP Sukses Makmur Tbk and PT. Siantar Top Tbk has fluctuated.

Seeing this condition, several analysts stated that one of the reasons for the economic growth not being maximized was the slowdown in household consumption growth. According to Tamara (2020) in katadata.co.id with the largest contribution, household consumption is one of the references for measuring the overall economy. The trend of consumption growth is always in line with the pace of the economy. When consumption slows down, it will almost certainly affect aggregate economic growth. As previously explained, the food and beverage industry is a product that is included in the Fast Moving Consumer Goods (FMCG), this condition is inversely proportional to its designation as FMCG due to a slowdown, several factors that have caused a slowdown in this sector include, Competition between companies is getting tighter and heating up involving various local and imported brands, furthermore the slow recovery in people's purchasing power and the shift in consumer choices from FMCG products to Non-FMCG products also further slows down the growth of the industry. Also, the depreciation of the rupiah and higher interest rates will indirectly erode people's purchasing power.

From the above phenomenon, the writer suspects that earnings growth is largely influenced by the application of growth. According to Syamsuddin (2011: 39), several ways can be used to analyze the financial condition of a company, but analysis using financial ratios is a very common thing to do. One of the financial ratio factors that are thought to affect earning growth is the Profitability Ratio. Researchers use the Net Profit Margin (NPM) in the Profitability Ratio because it is an indicator that shows the efficiency of the company's products in generating profits. Companies that have larger margins mean that they generate greater profits than companies that have smaller margins when measured in the same sales value.

Another factor that is thought to affect earning growth is the liquidity ratio, one of the liquidity ratios used in this study, namely the Current Ratio (CR) because this ratio can explain how the company's ability to meet short-term liabilities by using the most liquid assets. Thus, this Liquidity Ratio is related to financial performance so that it will affect the company's earnings growth.

The next factor that is thought to affect earnings growth, namely leverage, leverage is the company's ability to use assets from borrowed funds to create good returns and reduce costs. The ratio on the leverage will be an important consideration tool for investors or creditors to assess their investment. That's why leverage for companies can have a significant impact. One of the leverages used in this study is the Debt to Asset Ratio (DAR). Whereas the greater the Debt to Asset Ratio (DAR), the greater the debt used by the company to fulfill company operational activities to increase company profits.

From the above problems, the authors are interested in researching on **Profitability, Liquidity, Leverage, and Earnings Growth** in the food and beverage industry in Indonesia from 2015 to 2018.

2. Hypothesis Development

Profitability (Net Profit Margin) and Earning Growth

The effect of Net Profit Margin on earning growth according to Heikal, Khaddafi, and Ummah (2014), the higher the net profit margin indicates that the greater the profit that can be obtained from sales. So it can be concluded that the better the company in managing sales can increase the net profit margin or increase the profit that can be obtained. Based on previous research conducted by Hapsari (2007), and Heikal, Khaddafi, and Ummah (2014), which in their research shows that net profit margin affects earning growth.

H1: Net Profit Margin affects Earning Growth

Liquidity (Current Ratio) and Earning Growth

The next factor used to see the effect on earnings growth is the liquidity ratio, which is the ratio that shows the company's ability to meet its obligations or pay its short-term debt. This ratio can be used to measure how liquid a company is. If the company can fulfill its obligations, it means that the company is liquid, whereas if the company is not able to fulfill its obligations, it means that the company is liquid. The most liquid assets include cash and company receivables. The existence of a high Current Ratio value can indicate the high value of liquidity which later can benefit the company. This company's profit can be the company's net profit. Thus, this Liquidity Ratio is related to financial performance so that it will affect the company's earnings growth. The results of research by Agustina and Rice (2016) show that the current ratio affects earnings growth.

H2: Current Ratio affects Earning Growth

Leverage (Debt to Asset Ratio) and Earning Growth

Another factor that is thought by the author to affect earning growth, namely leverage, leverage is the company's ability to use assets from borrowed funds to create good returns and reduce costs. The ratio on the leverage will be an important consideration tool for investors or creditors to assess their investment. So that this makes the leverage for the company can have a significant impact. One of the leverages used in this study is the Debt to Asset Ratio (DAR). Whereas the greater the Debt to Asset Ratio (DAR), the greater the debt used by the company to fulfill company operational activities to increase company profits. The research results of Sari and Endang (2015), which in their research show that the debt to asset ratio affects earnings growth. Meanwhile, research conducted by Andriyani (2015) shows that DAR has no significant effect on earnings growth.

H3: Debt to Asset Ratio affects on Earning Growth

3. Research Methods and Data

This study aims to explain the position of the variables studied and their relationship between one variable and another through hypothesis testing. The total population used was 51 companies, while the sample used was 7 companies that met the criteria using probability sampling techniques and the study was conducted in the 2015-2018 period so that the number of observations used in this study was 40.

Research Variables

There are two types of variables used in this study, namely the independent variable and the dependent variable, where the independent variable consists of the profitability ratio which is proxied by Net Profit Margin (NPM) as the X1 variable with the ratio as the measurement scale, According to Kasmir (2015: 134) said to measure NPM, namely dividing Earning After Interest and Tax with sales. The next ratio is the liquidity ratio, which is proxied by the Current Ratio (CR) as the X2 variable with the ratio as the measurement scale. According to Kasmir (2015: 119), says to measure CR is dividing current assets with current debt, then the leverage ratio is proxied by Debt. to Asset Ratio (DAR) as the X3 variable with the ratio as the measurement scale, the measurement method is total debt divided by total assets (Kasmir, 2015; Gurel & Cetin, 2019).

Another type of variable used is the dependent variable (Y), namely Earning Growth (EG), where the increase in a company's profit in one year compared to the previous year (Harahap, 2011). The profit used is the net profit or profit for the year.

Data analysis technique

The purpose of this study is to determine the effect of variable X1 (NPM), variable X2 (CR), and variable X3 (DAR) on variable Y (EG). To achieve this goal, the researcher conducted several stages of research including regression model test, classical assumption test, panel data regression analysis, and hypothesis testing.

Regression Model Test

The panel data regression equation model testing uses several approaches, namely the Chow test, the Hausman test, and the Lagrange Multiplier test.

Classic assumption test

Linear regression testing can be done if it meets various requirements and conditions, namely the fulfillment of the popular econometric test which is called the classical assumption. Classic assumptions must be tested first so that regression analysis can be carried out.

Regression Analysis with Panel Data

Data analysis was carried out quantitatively using regression analysis techniques where regression analysis is a study of variable dependence on the earning growth variable (Y) with one or more independent variables, namely NPM (X1), CR (X2), and DAR (X3). to estimate and predict the population average or the average EG (Y) variable based on the known values of the NPM (X1), CR (X2), and DAR (X3) variables (Ghozali, 2013).

Hypothesis Test with F Test

The F test is a simultaneous test of the regression relationship which aims to determine whether the NPM (X1), CR (X2) and DAR (X3) variables together have a significant effect on the EG (Y) variable (Ghozali, 2013: 98).

Determination Coefficient Test (R^2)

In the next test the writer tested the coefficient of determination ($\mathbf{R^2}$). A small $\mathbf{R^2}$ value means the ability of the variables NPM (X1), CR (X2), and DAR (X3) in explaining the very limited variation of the EG (Y) variable and if the value is close to one it means the NPM (X1) variables, CR (X2) and DAR (X3) provide almost all the information needed to predict the variation in the EG (Y) variable (Ghozali, 2013: 97).

Hypothesis Test with t-test

The t-test is used to test the hypothesis partially to show the effect of each variable NPM (X1), CR (X2), and DAR (X3) individually on the EG (Y) variable (Ghozali, 2013: 98).

Research result

Regression Model Test

At this stage, testing the panel data regression equation model, the following results are obtained:

Table 1 Chow Test

Effects Test	Prob.
Cross-section F	0.80
Cross-section Chi-square	0.63

Source: Data processed with EViews 10

Selected Results from table 1, Chow's test, that in the Chi-square cross-section the probability value is above 0.05, which means that the regression equation model uses the common effect model so that there is no need to do the Hausman test and the Lagrange Multiplier test.

Classic assumption test

In the classical assumption test stage, the normality test shows a probability value below 0.05, namely 0.008, which means that the data used are not normally distributed. According to Gujarati (2006: 66), the central limit theory explains that if the number of observations is large enough, which is above 30, then the data is considered normal. Furthermore, in the Multicollinearity Test the data used did not have multicollinearity between the NPM (X1), CR (X2), and DAR (X3) variables. In the Heteroscedasticity Test, the regression model is free from heteroscedasticity symptoms and this study is free from autocorrelation problems.

Hypothesis Test with F Test

The results of the F test in this study can be seen in table 2 of the F test below:

Table 2 F-test

R-Squared	0.88
Adjusted R-Squared	0.87
F-Statistic	91.33
Prob (F-Statistic)	0.00

Source: Data processed with EViews 10

In the table, it is explained that the F-Statistic value is 91.33 and the probability value is 0.00, this result is compared with the F-table value of 2.86 and α of 5%, it can be concluded that the variables NPM (X1), CR (X2) and DAR (X3) together have a significant effect on the variable EG (Y).

Determination Coefficient Test (R^2)

The R-Squared value can be seen in Table 2 above which is 0.88 or 88%, the NPM (X1), CR (X2), and DAR (X3) variables can explain the EG (Y) variable while the remaining 12% is influenced by other factors outside of this study.

Hypothesis Testing with t-test

The results of hypothesis testing with the t-test are obtained as follows:

Tabel 3 t-test

Variable X	t-calculated	α-calculated	Information
NPM	11.10	0.00	Significant
CR	-3.78	0.00	Significant
DAR	-1.90	0.06	Not significant

Source: Data processed with EViews 10

This information shows that only the DAR variable (X3) has no effect on the EG (Y) variable because the α-calculated value is above 5% (0.05), which is 0.06, while the other 2 independent variables are NPM (X1), and CR (X2) has an effect on the EG (Y) variable because the α-calculated value is below 5% (0.05), which is 0.00.

4. Discussion

Profitability (Net Profit Margin) and Earning Growth

The first hypothesis proposed that the Net Profit Margin (NPM) variable influences the Earning Growth (EG) variable is accepted. This proves that the greater the net profit margin, indicating that the company can generate a high gross profit, so that the company can cover operational costs, with the hope that the income earned will also increase, and the company's earnings growth will certainly increase as well. It can be said that the company's performance is considered good and can increase the attractiveness of investors to invest in the company so that the income earned by the company increases. The results of this study are in line with those conducted by Hapsari (2007), and Heikal, Khaddafi, and Ummah (2014), saying that net profit margin affects earnings growth.

Liquidity (Current Ratio) and Earning Growth

The second hypothesis proposed that the variable Current Ratio (CR) influences on the variable Earning Growth (EG) is accepted. This shows that the company's ability to fulfill its obligations or in the short term. The company fulfills its short-term obligations by using the most liquid assets, namely cash and company receivables. The existence of a high Current Ratio value shows a good liquidity value which can later benefit the company. This company's profit can be the company's net profit. Thus, this Liquidity Ratio is related to financial performance so that it will affect the company's earnings growth. The results of this study are in line with Agustina and Rice (2016), which show that the current ratio affects earnings growth.

Leverage (Debt to Asset Ratio) and Earning Growth

In the third hypothesis, it is proposed that the Debt to Asset Ratio (DAR) variable has an influence on the Earning Growth (EG) variable is rejected. These results illustrate that the company does not maximize the allocation of funds originating from debt to manage the company's assets, which means that the debt to asset ratio is an inability to affect earning growth because the results of using debt funds to finance assets used by the company are not able to cover all interest expenses that must be paid by the company to result in a decrease in profits even the company may suffer losses. The results of the study are in line with Andriyani (2015), which states that the debt to asset ratio does not have a significant effect on earnings growth.

5. Conclusions and suggestions

Conclusion

The research results show that only Net Profit Margin (NPM) and Current Ratio (CR) affect Earning Growth (EG) while Debt to Asset Ratio (DAR) does not affect Earning Growth (EG).

Suggestion

The authors suggest that the company under study should pay more attention to the use of current assets, debt and investment so that it has good quality in processing its funds, where the company will be able to allocate its sources of funds appropriately so that the goal of increasing company profits is achieved.

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