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Research Article

Fundamental Factors and Stock Returns: Market Capitalization's Role in Forming Investment Outcomes

Iqbal Zulfahmi[1], Hesty Juni Tambuati Subing[2*]
[1,2] Faculty of Economics and Business, YARSI University, Jakarta

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Abstract

Telecommunication is one industry that significantly influences the smooth running of economic activities. Communication is the main business activity and contributes significantly to the Indonesian economy. Some telecommunications companies, such as PT, have gone public in Indonesia. Telekomunikasi Indonesia Tbk, PT. Indosat Tbk, PT. XL Axiata Tbk, and PT. Smartfren Telecom Tbk. The shares of these companies have returned to their owners every year with different return values. This finding is the basis for researching the four major telecommunications companies with large capitalization values and a significant market share that have been established for a long time and are still consistent. The managerial implications of this study indicate that understanding fundamental factors such as profitability, liquidity, and capital structure is very important for company management in increasing stock returns and market capitalization. By optimizing fundamental performance, companies can increase their attractiveness to investors and strengthen their market position. In addition, the role of market capitalization as a moderating variable confirms that companies with large capitalization tend to be more stable in facing market fluctuations.

Keywords: Telecommunication, stock, sharia

JEL Classification: G11, G12, G32

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Corresponding author: Hesty Juni Tambuati Subing (hesty.tambuati@yarsi.ac.id)

1. Introduction

Telecommunications companies are organizations that provide communication technology services to meet community needs. These companies offer various services, including telephone services, SMS, internet or broadband, and various telecommunications support services. In Indonesia, the telecommunications sector is experiencing remarkable growth. From a technological standpoint, the current trend has shifted from narrowband to broadband and from traditional to next-generation networks. Likewise, from a business perspective, there is an increasing focus on data services.

This evolution is primarily driven by the continuous advancement of telecommunications technology (Medina, 2020). Each time new technologies emerge, they are rapidly integrated into telecommunications services, creating ongoing opportunities for industry stakeholders in Indonesia.

Based on research conducted by the International GSM Industry Association (GSMA) in collaboration with AT Kearney across 17 countries in the Asia Pacific, including Indonesia, the cellular industry makes a substantial economic contribution in terms of gross domestic product (GDP), employment, and government revenue. This analysis focuses on various factors that provide insights into a company's financial performance and future business prospects. When analyzed thoroughly, financial reports offer numerous benefits to users as decision-making tools. Investors can utilize information within these reports to compute financial ratios pertinent to the stocks they are considering.

This finding points out that the current proportion may impact stock returns. The current proportion determines the company's capacity to pay short-term liabilities or obligations due quickly when collected in full (Kasmir, 2018). This current proportion is calculated by comparing the current resources with the company's add up to current liabilities. Nola (2018) and Ihsan (2017) state that the current proportion positively and critically impacts stock returns. This finding demonstrates that speculators will get higher returns if the company's capacity to meet its short-term commitments is higher. This result is opposite to inquire about concurring to Ajeng Ika Ariyanti (2016), who found proof that the current proportion has no impact on stock returns.

The moment proportion that impacts stock returns is the productivity proportion measured by the Net benefit edge. This finding is very curious to talk about since the objective to be accomplished in each venture is to form a benefit. An increment within the net benefit edge will affect stock returns, and a diminish within the net benefit edge esteem will influence a diminish within the company's stock returns. This finding is the benchmark for investigating the relationship between benefits and the company's stock return level. Net benefit edge is utilized to degree a company's capacity to produce net wage against add-up to deals.

The higher it is, the higher the net profit the company achieves. Very high demand for a company's shares will be followed by an increase in the company's stock price, and stock returns will also increase (Ayu, 2019). This result is confirmed by research, which states that profitability proxied by NPM has a positive and significant effect on stock returns. However, this is contrary, who stated that Net profit margin (NPM) has a negative effect on stock returns.

In this study, market capitalization value is a moderating variable, where the market capitalization value is the value of a company's shares circulating in the market. So, the price of a company's shares in the market is higher, and the number of shares circulating there is more significant. In that case, the company's market capitalization will increase. Market capitalization has a significant positive effect on stock returns, but this differs from Ardiansyah (2018), who states that market capitalization does not affect stock returns. This study includes market capitalization as an indicator because, in general, stocks with a considerable capitalization value are targeted by investors for long-term investment. This is because market capitalization illustrates the potential for good company growth and has a low risk.

Although many studies have discussed the influence of fundamental factors on stock returns, there is still a gap in understanding the role of market capitalization as a moderating variable that can strengthen or weaken the relationship, especially in the telecommunications sector, which companies with large capitalization and stable growth rates characterize. This study provides a new contribution by simultaneously testing the influence of the current ratio, net profit margin, and debt-to-equity ratio on stock returns and placing market capitalization as a moderate variable in the relationship. This approach is different from previous studies because it presents a more.

A comprehensive analytical framework expands the scope of the eight-year research period, which is expected to provide a more accurate picture of the dynamics of stock returns in the Indonesian telecommunications sector.

2. Literature Review and Hypothesis

Literature Review Agency Theory

Agency theory is a positive accounting framework that seeks to describe and elucidate accounting practices and standards. It concerns the relationship between stakeholders, shareholders, and agents, such as managers and corporate executives. In this study, agency theory highlights the potential for information asymmetry arising from conflicts of interest while preparing financial reports. This issue can be mitigated through effective corporate governance, including ensuring greater information disclosure transparency.

Signal Theory

Signal theory was developed to address the problem of information asymmetry in companies by increasing the provision of information signals from parties with more information to stakeholders with less information. The information held by company management is of higher quality compared to other company owners. Signal theory is a theory that looks at signs of conditions that describe a company. The signal theory states that good-quality companies intentionally give the market signals. Thus, the market can be expected to distinguish between good and bad-quality companies (Juliana & Saerang, 2015). If the announcement contains a positive value, the market is expected to react when it receives it. Meanwhile (Jogiyanto, 2017) states that events containing information will provide positive or negative signals for investors in making investment decisions.

Stock Returns

Stock returns can be in the form of dividends, namely company profits received by investors either in cash, shares, or property, and capital gains, namely the difference between the purchase price and the sale price. Returns are divided into two: realized returns (returns that occur or can also be called actual returns) and expected returns (returns expected by investors). Stock returns are investment income obtained from stock sales and purchase activities, which, if the purchase is profitable, will be called capital gain; if the purchase is a loss, it will be known as capital loss. Meanwhile (Brigham & Houston, 2017) stated that stock returns or returns are the difference between the amount to be received minus the stock price at the time of purchase, divided by the stock price at the time of purchase.

Capitalization Value

Showcase capitalization demonstrates the estimate of a company based on the esteem of extraordinary offers in a specific period. (Nonik, 2019) characterizes advertise capitalization as the esteem of an open company that has recorded its capital on the stock trade. Advertise capitalization esteem is the advertising cost of offers increased by the number of extraordinary offers. Advertise capitalization esteem is the esteem of a company's exceptional offers within the showcase. So, the cost of a company's advertising offers is higher, and the number of extraordinary offers within the showcase is more prominent. In that case, the company's advertising capitalization will increase. Concurring to (Ardiansyah, 2017), showcase capitalization is duplicating the showcase price/closing cost by the number of offers issued. It can be concluded that showcase capitalization is the esteem of the offers issued by the company.

Hypothesis

The Effect of Current Ratio (CR) on Stock Returns

The liquidity proportion capacity determines the company's capacity to meet its developing commitments, both to outside parties and inside parties of the company (Kasmir, 2017). The current proportion measures a company's capacity to meet obligation needs when they are due. The current proportion measures the company's capacity to pay short-term commitments. Alternatively, obligations are due promptly when collected in full (Kasmir, 2019).

The Effect of Net Profit Margin (NPM) on Stock Returns

The net benefit edge could be utilized to reduce the net benefit rate over net sales (Hery, 2018). Net benefit edge (NPM) may be a proportion that measures benefits after being intrigued and charged compared to deals. The more noteworthy the net benefit edge in a company, the more beneficial the execution, expanding investor confidence in contributing. Agreeing with Kasmir (2017), net benefit edge could be utilized to degree the company's capacity to create net profit/sales. Expanding benefits (net benefit after assessing) implies reflecting profits within the shape of profit picks up, or capital picks up gotten by shareholders will be more noteworthy. This way, speculators and/or other potential financial specialists will be inquisitive about contributing their reserves within the company.

The effect of Debt-to-equity ratio (DER) on stock returns.

This proportion is utilized to decide the sum of reserves given by borrowers (leasers) with the company proprietors. In other words, this proportion capacities to discover each rupiah of possessed capital utilized as collateral for the obligation. The debt-to-equity proportion is the comparison between adding up to obligation and capital. The proportion can determine how much claim capital is utilized to ensure short-term or long-term obligations. The more prominent this proportion is, the smaller the capital required to ensure its obligation so that the company will be more hazardous. Then again, a little obligation proportion level demonstrates way better execution because it causes the next rate of return. Based on this concept, the Debt-to-equity proportion impacts stock returns.

Market Capitalization Value Moderates the Effect of Current Ratio on Stock Returns

The current proportion is utilized as an intermediary for liquidity in this consideration. The current proportion may be a comparison between a company's current liabilities and current resources claimed by the company. Showcase capitalization esteem is utilized as a directing variable for the impact of the current proportion on stock returns. Exceptionally, tall exchanging exercises in companies with huge showcase capitalization values will increment the company's esteem. Increasing market capitalization esteem will extend budgetary solidness and increase financial specialist certainty within the company. With a huge showcase capitalization, it has adequate stores to pay off the company's current liabilities that have developed. The higher the liquidity, the superior the budgetary condition will be, which can increment the stock cost and increase the stock return. Based on the clarification communicated, the speculation defined in this ponders is that advertise capitalization moderates the impact of the liquidity proportion measured by the current proportion to stock returns.

Market Capitalization Value Moderates the Effect of Net Profit Margin on Stock Returns

Net benefit edge could be a proportion used to determine net deals' net benefit rate (Hery, 2019). If the company's budgetary execution in creating net benefits on net deals increments, this will affect expanding income. Expanding net benefit edge shows much better company execution and showcases expanding capitalization and benefits. Based on the clarification that has been communicated, the speculation defined in this thought is that showcase capitalization moderates the impact of the productivity proportion measured by net benefit edge on stock returns.

Market capitalization value moderates the effect of the debt-to-equity ratio on stock returns.

Obligation to value proportion is valuable for knowing the degree to which a company's resources are financed by obligation, both within the brief and long term (Hery, 2018). The proportion can determine how much value is utilized to ensure short-term or long-term obligations. The more prominent this proportion implies, the smaller the value of ensuring its obligation so that the company will be more hazardous. The impact of use on stock returns can be fortified or debilitated by showcasing capitalization as a directing variable. On the off chance that use is tall and profits conveyed to financial specialists are expansive, stock returns will be tall at that point. Be that as it may, on the off chance that use is tall, but profits conveyed to speculators are moo, at that point, stock returns will be small. The theory concludes that showcase capitalization moderates the impact of the use proportion measured by the debt-to-equity proportion on stock returns.

Conceptual Framework

In this study, there are several differences, where the study uses a moderating variable projected by the market capitalization value and a research period of 8 years in telecommunications companies listed and meeting the criteria on the IDX. Based on the theory and results of previous studies, several factors are identified as influencing stock returns, namely fundamental factors (CR, NPM, DER) and market capitalization value. For this reason, a test will be carried out to determine the extent of the influence of the independent variables on stock returns. So that the theoretical framework in this study can be described as follows:

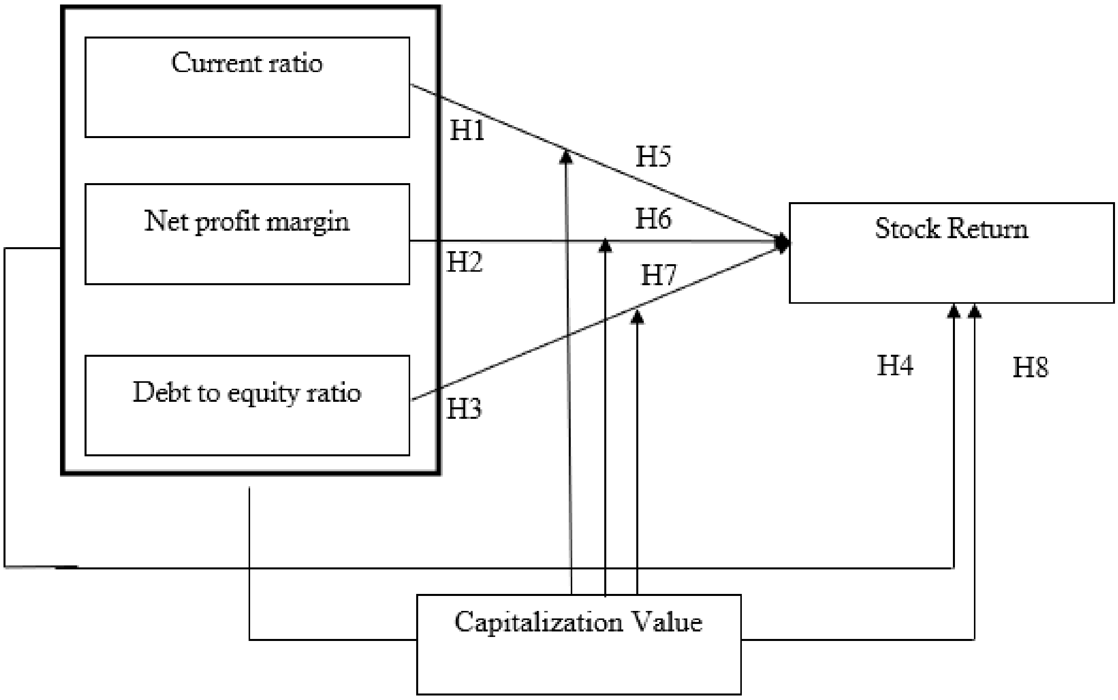

Figure 1. Conceptual Framework

3. Data and Method

Type of Research

The sort of investigation utilized in this ponder is a quantitative investigation with a graphic approach. A clear strategy will clarify a few companies' monetary proportions, counting the debt-to-equity proportion, net benefit edge, advertise capitalization esteem and stock returns. The quantitative inquiry about strategy could be a sort of investigation whose details are orderly, arranged, and organized from the start to the creation of the inquiry plan.

Population and Sample

The population in this study was telecommunications companies listed on the IDX from 2014 to 2021. There were 8 companies in total, but after being processed, 4 companies met the criteria. The selection of samples in this study was carried out by purposive sampling to obtain samples that were by the research objectives.

Data Collection Method

Data collection in this study was carried out by non-participant observation, namely by reviewing books, journals, and papers to obtain a comprehensive theoretical basis and exploring the annual financial reports of telecommunications companies listed on the IDX in 2015-2018 to obtain variable data used for research.

Data Types and Data Sources

The type of data used in this study is secondary data. The secondary data needed in this study is data on telecommunications companies listed on the IDX during 2014-2021. The historical data used in this study are the annual financial reports of telecommunications companies obtained from idx.co.id.

Data Collection Techniques

Data collection techniques are ways to obtain data and information needed in research. The data collection technique in the study is the documentation technique, namely, collecting data from documents of the companies being studied, namely, reviewing financial report data, annual reports on historical data of research samples sourced from idx.co.id.

Data Analysis Method

The data analysis method analyzes data to solve problems or answer hypotheses (Sugiyono, 2017). Data analysis was carried out using Descriptive Statistical Analysis, classical assumption test, multiple linear regression analysis, Hypothesis Testing, and Determinant Coefficient.

4. Results

Normal Test Results

Table 1. One-Sample Kolmogorov-Smirnov Test Normality Test

	Unstandardized Residual
Asymp. Sig. (2-tailed)	.200[c,d]

Source: data processed by researchers, (2022)

The premise for decision-making within the Ordinariness Test is as follows: If the centrality esteem> 0.05, it implies that the variable is ordinarily dispersed. If the noteworthiness esteem

Multicollinearity Test

The following are the results of the VIF and tolerance values with the multicollinearity test for each variable can be seen in the following table 2:

Table 2. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
CR	.337	2.967
NPM	.478	2.094
DER	.446	2.242
NK	.182	5.481

Source: Data processed (2022)

To detect the presence or absence of multicollinearity symptoms as follows: Tolerance value >0.10 and variance inflation factor (VIF) value <10 indicates no multicollinearity between independent variables, Tolerance value <0.10 and variance inflation factor (VIF) value >10 Indicates the presence of multicollinearity between independent variables. The results of the multicollinearity test can be seen in that each independent variable gets a tolerance result of more than 0.10 and a VIF value of less than 10. So, each variable does not experience multicollinearity.

Autocorrelation Test

Based on the results of the autocorrelation test using the runs test, it is stated in the following table 3:

Table 3. Autocorrelation Results

Runs Test	
Asymp. Sig. (2-tailed)	.590

Source: data processed by researchers, (2022)

If the Asymp. Sig. (2-tailed) the figure is greater than 0.05, indicating no signs of autocorrelation in the data. Conversely, when the Asymp. Sig. (2-tailed) The figure exceeds 0.05, which suggests that the data exhibits signs of autocorrelation. The outcomes suggest that when the Asymp. Sig. (2-tailed) value is higher than 0.05 or 0.590 surpasses 0.005, there are no indications of autocorrelation in the data.

Heteroscedasticity Test

The heteroscedasticity test is used to see if there is an inequality in variance from one residual to another observation. If the variance of the residual from one observation to another remains the same, it is called homoscedasticity; if it is different, it is called heteroscedasticity.

Table 4. Heteroscedasticity Test Results

Model	t	Sig.
(Constant)	-.941	.355
CR	-.477	.637
NPM	.233	.818
DER	.223	.825
NK	-.513	.612

Source: Data processed (2022)

In the heteroscedasticity test, each independent variable obtained a significance result > 0.05, meaning each variable has no problems related to heteroscedasticity.

Multiple Linear Analysis Test

Multiple linear regression analysis is used to test the extent to which the direction and influence of the independent variables affect the dependent variable. The results of multiple linear regression can be seen in the table below:

Table 5. Multiple Linear Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.381	.108		3.516	.002
CR	.363	.225	.283	1.615	.117
NPM	1.253	.575	.370	2.178	.037
DER	.524	.213	.410	2.464	.020

Source: Data processed (2022)

The multiple linear regression analysis findings reveal that the Current Ratio (CR) exhibits a regression coefficient of 0.363 and a significance level of 0.117, indicating it does not exert a notable impact on the dependent variable at the 5% significance threshold. In contrast, the Net Profit Margin (NPM) shows a regression coefficient of 1.253 with a significance value of 0.037, demonstrating a positive and considerable influence on the dependent variable. Similarly, the Debt-to-Equity Ratio (DER) records a regression coefficient of 0.524 and a significance level of 0.020, further affirming a positive and significant impact. Consequently, these findings suggest that enhancing NPM and DER can substantially elevate the dependent variable, whereas CR lacks a significant effect.

Hypothesis Testing

The t-test is employed to assess if each independent variable has a noteworthy impact on the dependent variable in a partial manner. The judgment is reached by contrasting the t-count derived from each regression coefficient with the appropriate t-table value based on the set significance level. When the t-count for a regression coefficient is less than the t-table, we accept the null hypothesis (Ho). This outcome indicates that the regression coefficient associated with the independent variable does not influence the dependent variable. Conversely, if during the assessment of a regression coefficient, the t-count exceeds the t-table, we then decide to reject the null hypothesis (Ho). This result signifies that the independent variable does indeed affect the dependent variable.

Table 6. T-Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.291	.098		2.957	.006
CR	.363	.225	.283	1.615	.117
NPM	1.253	.575	.370	2.178	.037
DER	.524	.213	.410	2.464	.020

Source: Data processed (2022)

According to the findings from the t-test, the Debt-debt-equity ratio (DER) exhibits a regression coefficient of 0.291 and a significance value of 0.006, implying that DER influences the dependent variable meaningfully. On the other hand, the Current Ratio (CR) shows a regression coefficient of 0.363 paired with a significance value of 0.117, suggesting that CR does not have a meaningful impact. In addition, the Net Profit Margin (NPM) displays a regression coefficient of 1.253 with a significance value of 0.037, along with DER having a coefficient of 0.524 and a significance of 0.020. With NPM and DER having significance values lower than 0.05, it can be inferred that these two variables significantly affect the dependent variable. Conversely, CR does not significantly affect the dependent variable.

5. Discussion

The effect of the Current ratio (CR) on stock returns.

The analysis performed in this research indicates that the Current Ratio (CR) does not significantly affect stock returns. This conclusion is consistent with Hendra's (2022) and Isnaini (2018) findings, all of which determined that the Current Ratio has no bearing on stock returns. A low CR is frequently viewed as an indication of liquidity problems and can be an early warning sign of a company's possible failure to address its short-term liabilities. Additionally, a low CR implies that the business might face challenges in managing its finances effectively to generate revenue, which diminishes its overall capability. Investors often see a lower CR as a sign of the firm's reduced potential to meet its operational requirements, especially concerning working capital, which is vital for sustaining performance and consequently impacts stock price performance. Hence, for companies in the telecommunications sector listed on the Indonesia Stock Exchange, the CR variable does not affect stock returns.

The effect of the Net profit margin on stock returns.

Based on the findings from the data evaluation conducted in this research, it has been determined that NPM positively and significantly influences stock returns. This conclusion aligns with the studies of Ajeng Ika Ariyanti (2019) and Moch Izuddin (2020), which indicate that as the profitability indicated by NPM increases, the company's stock return value also rises. The results demonstrate that firms capable of achieving high net profit margins (NPM) will attract investors' interest in purchasing shares, leading to a strong demand for these stocks in the market. An increased volume of stock purchases by investors is likely to impact the stock prices, consequently affecting the overall stock return.

The Effect of Debt-to-Equity Ratio on Stock Returns

Based on the findings derived from the data analysis conducted in this research, it is evident that the debt-to-equity ratio (DER) plays a noteworthy role in determining stock returns. The study indicates that when the DER is elevated, it typically leads to higher stock return values. This situation is plausible only if the DER remains within reasonable limits. A moderate DER suggests that the organization utilizes borrowed funds for expansion. Such growth in the business can enhance the company's earnings. Consequently, this outcome will entice potential investors to invest in the company. As more investors show interest in investing, the stock price will likely rise. As a result, the stock return (RS) will also experience an increase. These findings are consistent with prior research examining the relationship between the debt-to-equity ratio and stock returns, confirming a significant impact on stock returns.

The effect of CR, NPM, and DER simultaneously on stock returns.

This research aligns with numerous perspectives suggesting that these three factors positively influence stock returns, indicating that a lower DER ratio tends to be more favorable for firms. The analysis conducted in this study reveals that CR, NPM, and DER all exert a positive and notable influence on stock returns. As CR, NPM, and DER values rise, there is a corresponding increase in stock returns, enhancing investor confidence in committing funds to the company. This conclusion is corroborated by studies (Hasanudin, 2020), which demonstrate that the combination of CR, NPM, and DER significantly impacts stock returns.

The Effect of Market Capitalization Value can moderate the current ratio on stock returns.

The value of market capitalization influences the current ratio concerning stock performance, indicating its importance in the firm's ability to address both short-term and long-term financial obligations. When a company boasts substantial market capitalization, it possesses ample resources to settle its current liabilities. Improved liquidity leads to an enhanced financial situation, resulting in a rise in stock prices, naturally leading to increased stock returns. The market capitalization variable effectively moderates the relationship between the current ratio and stock returns. Therefore, H0L is dismissed, while H_5 is validated. This finding signifies that market capitalization significantly moderates the impact of the current ratio on stock returns.

The Effect of Market Capitalization Value can moderate net profit margin on stock returns.

The market capitalization value can influence the net profit margin concerning stock returns, indicating that if it contributes positively to the company's financial performance by enhancing net profit from its sales, it will consequently boost earnings. This conclusion is further supported, demonstrating that market capitalization can moderate the net profit margin's effect on stock returns. The variable representing market capitalization proves capable of moderating the relationship between the net profit margin variable and stock returns. Therefore, the null hypothesis H0L is dismissed while H_6 is confirmed. This finding implies that market capitalization moderates the net profit margin, impacting stock returns.

The Effect of Market Capitalization Value can moderate the debt-to-equity ratio on stock returns.

The DER ratio indicates how well a company can fulfill its long-term financial commitments. When the DER is elevated, it risks the company's ability to satisfy its debt obligations, affecting the opportunities for investors to achieve optimal stock returns. An increased debt ratio can lead to a decrease in stock returns. Another viewpoint suggests that utilizing Debt or leverage for financing can enhance the company's overall worth since the interest on Debt lowers the taxable income. Management can also strategically employ Debt to regulate excess free cash flow, preventing inefficient investments and thereby boosting the company's value. The variable of market capitalization can moderate the relationship between the debt-to-equity ratio and stock returns. Therefore, H0L is dismissed, and H_7 is acknowledged. This finding indicates that market capitalization value moderates the relationship between debt-to-equity ratio and stock returns.

The Effect of Market Capitalization Value can simultaneously moderate the current ratio, net profit margin, and debt-to-equity ratio on stock returns.

Market capitalization influences current ratios, net profit margins, and debt-to-equity ratios about stock performance, indicating that market capitalization is a significant element. When the market capitalization exceeds certain thresholds, the capacity to fulfill both short-term and long-term obligations is enhanced, allowing the company to address its maturing debts. A rise in market capitalization correlates with improved financial outcomes, particularly in net profits generated from net sales; as this grows, overall income also sees a boost. As market capitalization increases, the ability to meet various demands also improves.

6. Conclusion

Drawing from the examination results and the conversations regarding the theories introduced in earlier chapters, one can infer that independent, dependent, and moderating factors significantly affect stock returns. Notably, the Current Ratio (CR) does not affect the company's stock returns. On the other hand, both the Net Profit Margin (NPM) and Debt-to-Equity Ratio (DER) variables show a marked influence on stock returns. In summary, the Current Ratio, Net Profit Margin, and Debt-to-Equity Ratio collectively play a crucial role in determining stock returns. Furthermore, the Market Capitalization variable acts as a moderator, intensifying the connections between the Current Ratio, Net Profit Margin, and Debt-to-Equity Ratio regarding their impact on stock returns.

From a managerial perspective, this study underscores the importance of a thorough understanding of fundamental factors for company management in order to optimize stock returns and enhance market capitalization. Management should prioritize improving profitability, operational efficiency, and transparency in financial reporting to attract investor interest. Furthermore, strategic decisions regarding capital structure and dividend policy must carefully consider their implications for the company's value in the capital market.

Recommendation

To conduct better research, more companies can be used and not focused on the telecommunications sector. More years can be added to the study so that the research can be more accurate. ROE, DAR, and PBV can be added for further research development to affect stock returns. Practitioners are advised to focus on improving profitability ratios and healthy capital structures and maintaining the transparency of financial reports to attract investor interest.

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