The Analysis over the Influence of Free Cash Flow, Leverage, Price Earnings Ratio, and Dividends against Stock Repurchase Towards Manufacturing Company Listed in Indonesia Stock Exchange for Period 2010 – 2014

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Abstract:- This research aims to determine and analyze the influences of free cash flow, leverage, price earning ratio, and dividend on stock repurchase in manufacturing companies which have been registered on the Indonesia Stock Exchange in Period 2010-2014. The research design uses a causal design with a quantitative approach with the population in this research were manufacturing companies which have been listed on the Indonesia Stock Exchange (BEI) between the period 2010 - 2014. The samples in this research were 10 companies that choosen based on certain criteria. The results showed that 1) free cash flow was proven to affected the stock repurchase, 2) leverage has an affected to stock repurchase, 3) price earnings ratio has an affected to stock repurchase, 4) dividend has an affected to stock repurchase, and 5) Togetherness all of the factors that mentioned above has an influence towards the stock repurchase.

Keywords:- Free Cash Flow, Leverage, Price Earning Ratio, Dividends, Stock Repurchase

I.   INTRODUCTION

In the world of capital markets, issuer or public companies sometimes often took an corporate actions to improve the future performance. Stock repurchase is a form of issuer's corporate action. Share buyback is an action taken by an issuer to repurchase its own shares, either through the stock exchange or outside the stock exchange. This was done to increase stock liquidity, reduce the number of shares outstanding, increase earnings per share (EPS) and raise share prices.

The phenomenon that occurred in the first two months of 2016 was recorded by 5 issuers planning stock repurchase. Several companies which listed on the Indonesia Stock Exchange (IDX) had planned to conducted stock repurchase which is swirling in the public. That corporate action will be carried out because the price of their shares has declined sharply over the past 13 months, as the JCI dropped by 9.7% to 4,733.15 at the close of February 26, 2016 from the level of 5,242.77 in early 2015.

In respond to these conditions, the Financial Services Authority (OJK) issued a regulation regarding share repurchases that was issued with the aim of reducing the impact of significantly fluctuating market. This regulation resulted an increase in the number of companies that bought back their Shares compared to previous years. Buy back shares is also a good alternative for companies to distribute their excess cash to shareholders. Many factors has influence this stock repurchase decisions. Among them there were several factors such as free cash flow, leverage, price earnings ratio and dividends. Previous research has been examined the relationship between several components of financial variables on stock repurchase decisions, but there still had conflicting results between those studies.

In free cash flow variable based on Mufidah's research (2011) it could be concluded that the free cash flow has a significant positive effect on stock repurchase. However, the results of the research according to Houcine (2013) has different results, which namely the free cash flow variable has a negative and significant effect on stock repurchase. And on the variable leverage according to research Mastan (2012) get the results that leverage has a negative and significant effect on stock repurchase. Meanwhile, according to Mufidah's research (2011) leverage has a positive but insignificant effect on stock repurchase. Next other variable which is price earning ratio (PER) in research who was conducted by Mastan (2012) it was concluded that PER had a negative and significant effect on stock repurchase. However, it seems had different result in another research who was conducted by Dittmar (2000) it was concluded that PER had a positive and significant effect on stock repurchase. Next the dividend variable, the results found by Suranta, Midiastuty, and Wijaya (2012) they first found that the dividend indicated by the dividend payout ratio had a positive but insignificant effect on the stock repurchase. Whereas in following year research by Jiang, Kim, Lie, and Yang (2013) found that dividends had a negative and significant effect on stock repurchase.

Based on those description above alongside with the results of previous research, the research gap was found how to illustrate that there were inconsistencies between

researchers with the same variables. So the authors are interested to conducted research on several factors that a were suspected of having an influence on stock repurchase. This research was conducted especially in manufacturing companies which have been listed on the Indonesia Stock Exchange. Based on this, the authors are interested in to give research tittle with *"The Analysis Over the Influence of Free Cash Flow, Leverage, Price Earnings Ratio, and Dividends Against Stock Repurchase Towards Manufacturing Company Listed in Indonesia Stock Exchange for Period 2010 – 2014"*.

II. THEORITICAL REVIEW

A. Agency Theory

When a company owner sells a portion of his shares to other investors, that would create agency problems. The Company managers that was appointed by the shareholders ideally they will act "on the best interest of stockholders", but when the agency conflicts occurred there has one of program that would considered has capability to solving that matters. When the management distributes excess cash through a stock repurchase, this will provide trust for shareholders. By using funds wisely and not causing negative net present value for the company, management that will increase the trustworthiness of shareholders. Of course, dividends are also has similiar function where it tends to be no unique than the stock repurchase (Islahuddin and Dhuhri, 2011).

B. Stock Repurchase

Weygandt, Kimmel, & Kieso (2011) said that stock repurchase or so we called the treasury shares are shares of corporation that have been issued then repurchased by the company from shareholders, but the shares are not retired. Warren, Reeve, & Fees (2005) said that treasury shares are shares that have been issued by a corporation and then repurchased. Kieso, Weygandt, and Warfield (2011) mentioned that the reasons companies buy back shares, which namely: (a) to provide tax-efficient distributions of excess cash to shareholders, (b) to increase earnings per share and return on equity, (c) to provide shares for employee compensation contracts or to meet potential merger needs, (d) to share takeover efforts or to reduce the number of shareholders, (e) to make a market in the shares. From all the five of reasons that mentioned by Kieso et al, the reason item (e) is in accordance with the reason of stock repurchase / treasury stock which will be discussed in this research which concern to reduce the outstanding shares in the hope on increasing the value of the holder shares through rising share prices.

C. Free Cash Flow

Chung, Firth, and Kim (2005) defined that free cash flow as corporate cash so it could be distributed to creditors or shareholders which are not used for work capital or investment in fixed assets. White, Sondhi, and Fried (2003: 68) revealed that the greater the free cash flow of a company, the healthier the company is because it has available cash for develop , debt payments, and dividends. Conversely, the smaller the value of free cash

flow that one company has, which the company could be categorized as unhealthy one.

D. Leverage

Leverage is the use of assets and sources of funds by companies that have fixed costs with view to increase the potential shareholder returns (Sartono, 2001: 257). The leverage ratio is used to determined how much company funds are financed by debt. Leverage also measures how much the company's assets were financed by creditors which can be indicated by amount of its Debt to Asset ratio. Some understanding of Debt to Assets Ratio from several experts given below, Kieso et al (2011) said that the debt to the total assets ratio measures the total assets funded by creditors' loans. Weygandt et al (2011) said that the debt to total assets ratio could measures the percentage of total assets for which funds are given by creditors.

E. Price Earning Ratio

The Price Earning Ratio (PER) approach is usually used to assess the value or price of PER shares used by investors to predict the company's ability and generate the profits in the future. Price earnings ratio is a comparison between stock prices and earnings per share which used by investors to see the company's ability to generate profits. Kholid (2006) explained that the companies with high growth rate opportunities usually have high price earning ratios, and this shows that the market expects profit growth in the future. Its happen on the other hand when the companies with low growth rates tend to have low price earning ratios. The lower the price earning ratio of a stock,would be the better or cheaper the price to invest.

F. Dividend

Darmadji and Fakhruddin (2001: 127), had explained that the dividend is the Allocations of the company's remaining net income which distributed to shareholders with the approval of the GMS. The dividends are divided into two which namely cash dividends or stock dividends. There are several similarities and differences in motives why companies pay dividends or repurchase shares outstanding (Lease, John, Kalay, Loewenstein, and Sarig (2000:154-155) said that The similar motive is there's no investment opportunities, the existence of information from management to the market, and conveying future prospects. While the difference in motives is the existence of a tax rate. Dittmar (2000) says dividends that should be paid in cash can be replaced in the form of stock repurchase. With the replacement of dividend payments in the form of stock repurchase, dividend payments will be reduced. Dividend payments are better done when the increase in free cash flow is permanent (a constant or continuous increase in the current period).

G. Thinking Framework

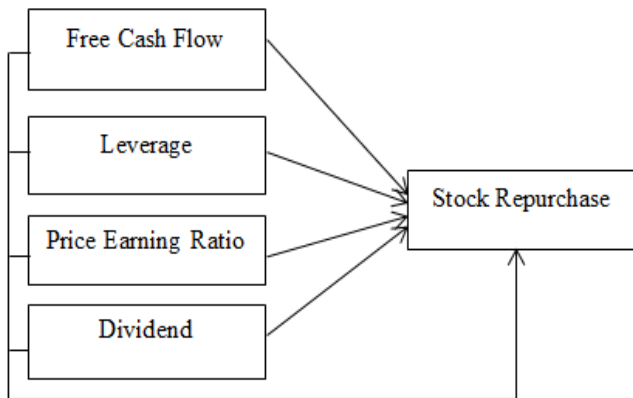The thinking framework for this research is as follows:

Fig 1:- Thinking Framework

H. Hypothesis

Based on these problems and literature related to this research, the following four hypotheses could be drawn as it follows:

H1: Free cash flow has an influence towards the stock repurchase of manufacturing companies listed on the Indonesia Stock Exchange.
H2: Leverage has an influence towards the stock repurchase of manufacturing companies listed on the Indonesia Stock Exchange.
H3: Price earnings ratio has an influence towards the stock repurchase in manufacturing companies listed on the Indonesia Stock Exchange.
H4: Dividend has an influence towards the stock repurchase of manufacturing companies listed on the Indonesia Stock Exchange.
H5: Free cash flow, leverage, price earnings ratio, and dividend togetherness has an influence towards the stock repurchase in manufacturing companies listed on the Indonesia Stock Exchange.

III. METHODOLOGY

The research design uses a causal design with a quantitative approach that describes as causal relationship. To examined the hypotheses, the statistical tools used as quantitative research methods. This research aims to prove whether Free Cash Flow, Leverage, Price Earning Ratio (PER), and Dividend (as the dependent variable) has an influence to the stock repurchase decision (as an independent variable).

The population in this research are the manufacturing companies listed on the Indonesia Stock Exchange (BEI) between the period 2010-2014. The sampling technique was purposive sampling, which is the selection of sample members based on certain criteria. Those criteria who used

in this research are: 1) manufacturing companies listed successively on the Indonesia Stock Exchange in 2010-2014, 2) companies that carry out stock repurchase as much as 1 time in 2010 - 2014, 3) companies that conduct stock repurchase 2 times in 2010 - 2014, 4) companies that did stock repurchase 3 times in 2010 - 2014, 5) companies that did stock repurchase 4 times in 2010 - 2014, and 6) companies that did stock repurchase as much as 5 times in 2010 - 2014. Based on the selection results, there were 10 companies that does fill the criteria for observations taken as research samples, namely: 1) Argha Karya Prima Ind Tbk, 2) Asiaplast Industries Tbk, 3) PT. Budi Search & Sweetener Tbk, 4) Darya Varia Laboratoria, 5) Gajah Tunggal Tbk, 6) Champion Pacific Indonesia Tbk, 7) Japfa Comfeed Indonesia Tbk, 8) Kalbe Farma Tbk, 9) Mulia Industrindo Tbk, and 10) Sorini Agro Asia Corporindo Tbk.

The data used in this research is quantitative data while using secondary data that is data which has been collected by data collection agencies and published to the data user community. The data in this research were obtained from the publication of the Indonesia Stock Exchange through its website namely idx.co.id. In this research the data analysis technique used multiple regression models performed by making a regression equation with stock repurchase as the dependent variable and free cash flow, leverage, price price earnings ratio (PER), and dividends as the independent variable. Testing this regression model using the SPSS program.

IV. RESULTS AND DISCUSSION

A. The Descriptive Data Analysis

The lowest value of the stock repurchase as the dependent variable is 36.00 rupiah per share experienced by Champion Pacific Indonesia Tbk in 2012. This means that the shares repurchased by the company are able to increase the stock market price by 36.00 rupiah per share stock. The highest value of the stock repurchase was 653.84 rupiah per share and was experienced by Asiaplast Industries Tbk in 2013. This means that the shares repurchased by the company were able to increase the stock market price by 653.84 rupiah per share. The average value of the stock repurchase of 277.35 rupiah per share owned by the company can increase the market price of the company's shares in manufacturing companies from 2010 to 2014 amounting to 653.84 rupiah per share. The standard deviation value of 217.05 rupiah per share is lower than the average value,which means that the variation of stock repurchase data is homogeneous.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SR	31	36,00	653,84	277,35	217,05
FCF	31	,02	,76	,45	,16
LEV	31	,15	,93	,48	,22
PER	31	,24	38,13	10,55	,8,35
DIV	31	1,36	36,67	13,51	10,26
Valid N (list wise)	31				

Table 1:- Descriptive Data Analysis

B. Classic Assumption Test

The examined of this classic assumptions is needed in order to get the results of multiple regression that can be accounted for. The estimation of the regression coefficient parameter must be the best linear unbiased estimation (BLUE) in order to obtain an exact multiple regression model that would meets the standard

➤ *Normality Test*

The normality test results has shown that the Kolmogorov-Smirnov significance value is 0.883 for residual data and greater than the significance value of 0.05 or 5%. Thus, it can be concluded that the data is normally distributed and can be used to test other statistics.

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		31
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	95,04682108
Most Extreme Differences	Absolute	,105
	Positive	,105
	Negative	-,089
Test Statistic		,585
Asymp. Sig. (2-tailed)		,883

Table 2:- Normality Test Results

➤ *Multicollinearity Test*

The multicollinearity test result was indicate that the magnitude of the VIF value of variables is below 10, this has shown that in this equation there is no multicollinearity between variables. To see the occurrence of multicollinearity is also seen from the level of tolerance. From the test results it could also be seen that the tolerance values of all the independent variables are not below 0.1. So it could be concluded that there is no multicollinearity between independent variables in the regression equation. With no multicollinearity, this regression equation is feasible to be used in research.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	290,670	88,678		3,278	,003		
	FCF	307,876	125,524	,222	2,453	,021	,902	1,109
	LEV	-254,329	116,865	-,256	-2,176	,039	,533	1,878
	PER	7,715	3,321	,297	2,323	,028	,452	2,211
	DIV	-8,154	3,236	-,385	-2,520	,018	,315	3,170

Table 3:- Multicollinearity Test Results

➤ *Heteroscedasticity Test*

Based on the table above from the glacier test results, it was found that the significance level of each variable in this research was above 0.05 or 5%, which mean that it could be concluded that the regression model that have been used was free from heteroscedasticity or free from violations of classical assumptions.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	290,670	88,678		3,278	,003
	FCF	307,876	125,524	,222	2,453	,021
	LEV	-254,329	116,865	-,256	-2,176	,039
	PER	7,715	3,321	,297	2,323	,028
	DIV	-8,154	3,236	-,385	-2,520	,018

Table 4:- Heteroscedasticity Test Results

➤ *Autocorrelation Test*

Based on the test results shown that at the 5% significance level for 31 samples (n) the value of Du = 1.7352 and 4-Du = 2.2648. Durbin Watson value of 1,980 so that 1.7352 <1,980 <2,2648, there could be concluded that there is no autocorrelation in the data.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,899[a]	,808	,779	102,096663	1,980

Table 5:- Autocorrelation Test Results

C. Hypothesis Testing

➤ *Partial Test (t test)*

The free cash flow variable (X1) has significance value of 0.021 less than 0.05 (5%). This is shows that free cash flow is proven to have an effect on stock repurchase. Thus, the second hypothesis (H1) which states that free cash flow has an influence to the stock repurchase can be accepted. The leverage variable (X2) has significance value of 0.039 smaller than 0.05 (5%). This shows that the leverage has affects the stock repurchase. Thus, the third hypothesis (H2) which states that the leverage has an influence to the stock repurchase can be accepted. The price earnings ratio variable (X3) has a significance value of 0.028 less than 0.05 (5%). This is shows that the price earnings ratio has affects to the stock repurchase. Thus, the fourth hypothesis (H3) which states that the price earnings ratio has an influence to the stock repurchase is accepted. Dividend variable (X4) has a significance value of 0.018 less than 0.05 (5%). This is shown that the dividend has affects to the stock repurchase. Thus, the fourth hypothesis (H4) which states that dividends has an influence to the stock repurchase is accepted.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	290,670	88,678		3,278	,003
	FCF	307,876	125,524	,222	2,453	,021
	LEV	-254,329	116,865	-,256	-2,176	,039
	PER	7,715	3,321	,297	2,323	,028
	DIV	-8,154	3,236	-,385	-2,520	,018

Table 6:- Partial Test Results (t test)

➤ *Simultaneous Test (F Test)*

Based on the results of statistical tests for the dependent variable of 27,396, a significance value of 0,000 is smaller than 0.05 or 5%, so it can be concluded that H5 is accepted, this is shown that all independent variables has a simultaneously significant effect on Stock Repurchase.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1142256	4	285564,027	27,396	,000[b]
	Residual	271016,9	26	10423,729		
	Total	1413273	30			

Table 7:- Simultaneous Test Results (Test F)

➤ *The Determination Test*

Based on the results of the determination test, it could be seen that the adjusted R2 value shows a result of 77.9% meaning that the ability of independent variables (Free cash flow, Leverage, PER and Dividend) could explain the dependent variable (Stock Repurchase) of 77.9% and the remaining 22.1% could be explained by other variables.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,899[a]	,808	,779	102,096663	1,980

Table 8:- The Determination Test Results

D. Interpretation

The general multiple linear model proposed in this research is: SR = a + b1FCF + b2LEV + b3PER + b4Div +

e. Then after the data is entered, the completion of the multiple linear equation model with using of the SPSS program produces the following data:

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	290,670	88,678		3,278	,003
FCF	307,876	125,524	,222	2,453	,021
LEV	-254,329	116,865	-,256	-2,176	,039
PER	7,715	3,321	,297	2,323	,028
DIV	-8,154	3,236	-,385	-2,520	,018

Table 9:- Regression Test Results

The multiple linear regression equations was obtained based on the results of statistical calculations as it shown in table 9 are:

$$Y = 290{,}670 + 307{,}876X1 - 254{,}329X2 + 7{,}715X3 - 8{,}154X4 + e$$

The free cash flow regression coefficient is 307,876 with a positive direction. This means that every 1 time increase in free cash flow it would increases the stock repurchase of manufacturing companies listed on the Indonesia Stock Exchange in the period of 2010-2014 by 307,876 rupiah per share.

The Leverage regression coefficient of -254,329 with the Negative direction. Which means that each 1time decreases in Leverage variable to the stock repurchase of manufacturing companies listed on the Indonesia Stock Exchange in period 2010-2014 by 254,329 rupiah per share.

Price earnings ratio regression coefficient of 7,715 with a positive direction. This could means that every 1 time increase in price earnings ratio it would increases the stock repurchase of manufacturing companies listed on the Indonesia Stock Exchange in period 2010-2014 by 7,715 rupiah per share.

The dividend regression coefficient is -8,154 with a negative direction. This could be means that every 1-time increase in dividend it would decreases the stock repurchase of manufacturing companies listed on the Indonesia Stock Exchange in the 2010-2014 period by 8,154 rupiah per share.

V. CONCLUSION AND SUGGESTION

A. Conclusion

From the several tests results and analyzes, the following conclusions that could be drawn like this:

➤ The results of this research stated that Free Cash flow had a positive and significant influence against stock repurchase towards the manufacturing companies listed on Indonesia Stock Exchange in period 2010-2014.

➤ The results of this research stated that Leverage had a negative and significant influence against stock repurchase towards the manufacturing companies listed on the Indonesia Stock Exchange in period 2010-2014.

➤ The results of this research stated that the Price earnings ratio had a positive and significant influence against stock repurchase towards the manufacturing companies listed on Indonesia Stock Exchange in period 2010-2014.

➤ The dividends have a significant negative influence against stock repurchase towards manufacturing companies listed on Indonesia Stock Exchange in period 2010-2014.

➤ Togetherness those factors that mentioned above has an influence against the stock repurchase towards manufacturing companies listed on Indonesia Stock Exchange in period 2010-2014.

B. Suggestion

Based on the analysis result and the research conclusion, therefore the following of suggestions could be made:

➤ For next future research it would expected to add another variables that thought has an influences towards the stock repurchase.

➤ This research was only conducted on manufacturing companies listed in the Indonesia Stock Exchange as for further research it is expected to expand the object research through several companies which not only in manufacturing area because it would get different results and conclusions if carried out on different objects concern.

➤ Its really wish that the manufacturing companies would have a large free cash flow and price earnings ratio so that the company's stock repurchase would also high. Alongside by increasing the leverage and dividends then it would causing the company's stock repurchase remain stable.

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