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Effect of free cash flow, company size, and leverage on stock return with dividend policy as a moderation variable

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ABSTRACT

The purpose of this study was to analyze the effect of (1) free cash flow on stock returns , (2) company size on stock returns , (3) Leverage on stock returns (4) dividend policy in moderating free cash flow on stock returns , (5) dividend policy in moderating firm size on stock returns , (6) dividend policy in moderating free cash flow on returns stock .

This research uses quantitative research methods. The sampling procedure in this study was based on a purposive sampling method, the population in this study amounted to 13 companies with 65 data. This study uses secondary data, which is obtained from the internet through the official IDX website (www.idx.co.id) and the official website of each company. The statistical method used to test the hypothesis is by using the SPSS statistical application.

The results showed that free cash flow and firm size had a positive effect, and leverage had a negative effect on stock returns. While the moderating effect in this study, dividend policy strengthens the effect of free cash flow and firm size on stock returns and dividend policy does not moderate the effect of leverage on stock returns.

Keywords: Free Cash Flow, Company Size, Leverage, Stock Returns and Dividend Policy.

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INTRODUCTION

The development of the Indonesian capital market cannot be separated from the role of investors, both local and foreign investors. In making an investment, an investor certainly has a goal to be achieved, namely to get a profit, one of which comes from paying cash dividends. The higher the dividend paid by the company, investors consider it good news and vice versa, when a company cuts dividend it is considered bad news (Setyaningsih and Agus, 2021).

Shares are securities that show ownership of investor rights in certain companies (Fatmawati and Afridayani, 2022). Stock investment is one of the most popular assets and can be done through the capital market on the Indonesian Stock Exchange. The capital market has an important position for the economic sector, because the capital market acts as an intermediary between investors and issuers. Through the capital market, investors can invest in a wide selection of securities with the aim of obtaining future profits (Cahyati et al , 2022).

Phenomena related to an increase in investor interest in issuers in the form of equity participation in the capital market is a phenomenon that cannot be separated from investors' expectations of profits in the form of optimal returns on invested capital. Stock investment is considered more attractive to investors compared to other financial instruments, because stock investment promises benefits, namely returns. Thus receiving stock returns , investors can see in terms of the condition of the company and can also be used as a reference from a financial perspective, whether they are experiencing financial difficulties or remain stable (Caparino and Saur, 2020).

The consumer goods industry has attracted considerable investor interest, as seen from the growth of companies in the consumer goods industry sector that are listed on the IDX. The stock price of each company tends to improve, so that they are able to produce relatively strong stock returns . Although companies in this sector experience an increase in stock returns in the future, the share price of consumer goods industry companies may decrease. Therefore, it is very important for investors to understand the factors that might affect their stock returns (Sitorus et al , 2021). The consumer goods industry above has the potential to boost the country's economic development and development under any circumstances.

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Phenomena related to the condition of the consumer goods industry showed that the consumer goods industry sector index fell 5.5% from the previous decade. Compared to the property sector index which fell 34.8%, and the textile industry index which fell 11.8%, other sectors fell to 29.55%. In the consumer goods industry sector, it only experienced a decline of 5.5%, indicating that it is the strongest, can survive in any environment, and offers the highest performance potential compared to other sectors (Ningsih and Novera, 2022).

Other data shows phenomena related to fluctuations in the average growth in stock returns in the goods and consumption industry sector which are listed on the Indonesia Stock Exchange (IDX) from early December 2019 to the end of December 2020 as follows:

Table 1

Q1	Q2	Q3	Q4
Period 1 (Dec 2019-Mar 2020)	Period 2 (Apr 2020-June 2020)	Period 3 (Jul 2020-Sept 2020)	Period 4 (Oct 2020-Dec 2020)
-22.83%	17.89%	33.04%	9.98%

Source: Processed data, 2022.

Based on Table 1.1 above, it shows that the average stock return for consumer goods sub-sector companies in 2020 fluctuated or was unstable every quarter. The table also shows that the average stock return for Q1 2020 was -22.83%, for Q2 2020 it was 17.89%, and for Q3 2020 it was 33.04%, and for Q4 2020 stock returns were 9 .98% (Umar et al , 2022) .

Fluctuations in stock movements during the Covid-19 pandemic in Indonesia were seen in this sector. This number has increased amid the Covid-19 pandemic. From the various data described above, it can be seen that the consumer goods industry sector experienced a decline in March 2020 and gradually improved until July 2020. In addition, stock movements in the consumer goods industry sector during the Covid-19 pandemic tends to increase, this made it possible to increase stock returns in the goods and consumption industry sector during the Covid-19 pandemic. However, during the fourth quarter of 2020, stock returns experienced a decline. Based on the research results of Umar et al. (2022) stated that stocks of consumer and industrial goods fell in December 2020. Panin Sekuritas analyst

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

Rendy Wijaya said that the decline occurred in stocks of industrial goods and the consumption sub-sector because the level of consumer confidence still tends to be pessimistic so that public consumption slows down somewhat. In addition, investors are currently more focused on investing in other sectors that have the potential to experience a significant recovery in performance after being depressed by the pandemic.

Free cash flow, company size, leverage , stock returns and dividend policy are mostly in the property, real estate and building construction industry sectors . The consumer goods industry was chosen as a subject not only because of the lack of research on the consumer goods industry but also based on its ability to maintain its shares when the Covid-19 storm hit the world and especially in Indonesia. It is interesting to carry out this research again referring to previous research which still showed inconsistent results (research gap). With the research gap between dividend policy variables, free cash flow, company size, leverage on stock returns , it is concluded that research still needs to be carried out to examine the relationship between these variables on stock returns by adding dividend policy as a moderating variable.

THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

Signaling Theory (Signal Theory)

Signaling theory was introduced by Spence (1972) in Job Market Signaling . This theory involves two parties, namely the sender of the signal and the receiver of the signal. Signal senders are internal company parties such as management who provide relevant information about the condition of a company. Signal recipients are external parties to the company, such as investors and creditors who receive information. Information from the signal sender will be received by the signal receiver which then results in understanding and making the right decision (Islamy et al. , 2021). Financial reports are reports that are used to provide signals, both positive and negative signals. Signaling Theory (signal theory) is the behavior of company management in providing guidance to investors about what management views the company's prospects in the future. Signal theory explains how companies signal to users of financial statements. This signal can be in the form of information through financial reports by management that companies apply conservatism accounting policies so as to produce higher quality profits (Akal et al ., 2022).

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Financial reports are intended to provide information in the form of financial information to internal and external parties of the company. Financial information is provided on the financial statements in the form of the company's financial position and company performance for one point. With information from reports from internal and external financial parties, you can make the right financial decisions. This signal theory emphasizes the importance of providing information to interested parties such as information about investments in the company so that investors can make decisions. Signal theory is very important for companies because it has the impetus to provide company financial report information to outsiders (investors), which will later become a signal for investors to make investment decisions (Cyntia and Susanto, 2020). Signal theory explains that with good communication it can produce good performance as well. That means that between one individual and another, other people need to understand and support one another so that all work can run effectively and get the desired results. The main thing in this theory is that the harmony of information conveyed and received can be confirmed. In this case management has an important role in connecting good internal and external information between superiors and subordinates.

Free Cash Flow

Free cash flow is defined as the remaining cash available for distribution to shareholders and creditors after the company has invested in fixed assets, new products and working capital used to carry out the company's operational activities. High free cash flow can create conflict between shareholders and managers. This problem is related to agency theory which is a theory about the relationship between management as principal and shareholders as agents. The conflict between the two parties is because managers want to use free cash flow to be reinvested in profitable projects, while shareholders want free cash flow to be distributed in the form of dividends so that shareholder welfare increases (Stephani and Agustina, 2019).

Company Size

Firm Size or company size is a measure of the size of a company as indicated or assessed by total assets, total sales, total profits, tax expenses and others. Company size is divided into three categories, namely: small, medium and large companies. Company size is

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one of the criteria considered by investors in their investment strategy. Large companies can access the capital market more easily, therefore large companies tend to be more flexible and find it easier to obtain funds or capital to improve company performance (Meliana and Henryanto, 2021).

leverage

According to Aldi et.al (2020) states that Leverage is the use of assets and sources of funds by companies obtained from third parties or creditors who have fixed expenses (fixed expenses) borne by the company with the intention to increase the profit potential of shareholders. Operating leverage is a medium proportion of fixed costs and variable costs. If most of the costs are fixed costs, the company is said to have a higher level of operating leverage, so that the higher the level of operating leverage , the higher the risk of the business in hand. In this study, what is meant by leverage is financial leverage (Ariwibowo, 2018) .

Stock returns

return is the level of profit enjoyed by investors on investment made. Return is divided into two, namely real return and expected return . Stock return is the level of profit enjoyed by investors for the investments they make (Kuncoro and Sudiyatno, 2022). Mankey et al. (2022) state that the rate of return is for common stock and represents the cash payment received as a result of owning shares at the time of the initial investment. One of the various ways for companies to raise additional capital is by offering company ownership (shares) to the public/public/investors (go public) through the capital market. In general, investors will be interested in making transactions if the company is able to provide good stock returns for investors or in other words the company has good quality.

Dividend Policy

The dividend policy is to determine the amount of profit distributed to shareholders and the portion of profit retained by the company. The management of a company has two alternatives for treating net profit after tax (earnings after tax), namely the decision to determine how much profit the company earns in a decision at the end of the year and will be distributed to shareholders, and will be reinvested or will be saved in the form of profit. detained in a company (Nuraini et. al 2020). Dividend is the proportion of profit sharing obtained by the company which is distributed to the company's shareholders. If a company

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

issuing shares is able to generate large profits, it is possible that its shareholders will enjoy benefits in the form of large dividends. Dividend policy is a company's policy of distributing profits in the form of dividends to shareholders or retaining them in the form of retained earnings (Selvi and Martha, 2022).

Hypothesis Development

Free cash flow was first proposed by Jensen (1986) who argues that free cash flow is the excess cash flow needed to finance all projects with a positive net present value. Management with high free cash flow of large companies can make decisions to pay dividends, buy back shares, allocate them to investments with negative NPV. If management invests with a negative NPV, the company's value will decrease. The bigger the company, the more opportunities for management to act as they please. This cash usually creates a conflict of interest between managers and shareholders. It is market pressure that will encourage managers to distribute free cash flow to shareholders or take the risk of losing control over the company (Liem et al., 2019).

Based on the results of research conducted by Montoliang and Lauw, (2018) stated that free cash flow has a significant influence on stock returns. However, the results of this study are different from the results of a study conducted by Liem et al. (2019) stated that free cash flow has no effect on stock returns.

H_1: Free cash flow has a positive effect on stock returns

Companies with small sizes tend to retain their profits to finance their operations, and this means that the dividends that will be received by shareholders will be smaller. So that the size of the company affects the decision in dividend distribution. Companies have small marginal capacity, so their share prices tend to be more sensitive to economic material and these companies have little tendency to thrive in difficult economic conditions. The above statement is supported by research conducted (Adawiyah & Setiawati, 2019), and (Fitroh and Fitri, 2022) which shows that company size has an influence on stock returns.

H_2 : Firm size has a positive effect on stock returns

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The projected leverage variable with the debt-to-equity ratio does not affect stock returns, meaning that investors do not fully utilize the information contained in financial reports in making investment decisions. In line with research conducted by Abdullah, et al (2015), where leverage affects stock returns. The same thing was conveyed by Mariani, et al, (2016) where leverage has a negative and significant effect on stock returns . The existence of a high leverage ratio indicates that the company's performance is getting worse, this is due to the greater degree of dependence on the company's capital to outsiders. If the company's leverage is high, then the company's stock price will be low, where if the company makes a profit, the company will tend to pay its debts compared to dividing dividends from profits obtained:

H_3 : Leverage has a negative effect on stock returns

Based on this theory, dividends are paid from a portion of the net profit earned by the organization. Dividend policy is a decision made by a company related to dividends, whether the profits earned by the company will be given to the shareholders or will be retained as profits used to finance investments in the future (Samrotun, 2015). The company's high free cash flow provides an opportunity for management to carry out earnings management. This problem occurs because of a problem. The agency theory states that conflicts of interest occur due to differences in interests between principals and agents. Where the principal wants to increase his welfare by distributing free cash flow in the form of dividends. Dividend distribution managers are considered to reduce their resources to reinvest (Irawan and Apriwenni, 2021).

H_4 : Dividend policy moderate the effect of free cash flow on stock returns

Size is related to profitability. Small company shares have a tendency to earn lower earnings than large company shares. The size effect in earnings occurs, because of the high probability of low profits from small company shares, especially after the recession in the United States in 1980 (Guritno, 2013). Research conducted by Sudarsono and Sudiyanto, (2016) shows that company size affects stock returns.

H_5 : Dividend policy moderate the effect of firm size on stock returns

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

One of the company's important policies that can influence investors is the dividend policy. Dividend policy is the decision whether profits earned by the company will be distributed to shareholders as dividends or retained in the form of profits to finance investment in the future. The company may be able to pay dividends in accordance with the policy earlier or decide to cut or even eliminate cash dividend payments for the first time the dividend disappearance. The easiest condition to see is whether the company is in financial trouble, whether the company is writing off. dividend payments (Antika et al., 2018). The results of hypothesis testing indicate that the dividend policy has a significant effect on stock returns. This means that high dividends will increase the rate of return on shares. This is due to the information provided from the distribution of dividends that the company is in good condition and is able to distribute its dividends to the company's shareholders. The results of this study are in line with the research of Cahyaningrum and Wijayanti, 2022) which states that dividend policy has a significant effect on stock returns .

H_6 : Dividend policy moderate the effect of leverage on stock returns .

RESEARCH METHODS

This research is a quantitative research using purposive sampling technique in taking the sample. This study uses secondary data obtained from the internet through the official IDX website (www.idx.co.id) and the official website of each Consumer Foods Industry company listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The sample in this study amounted to 13 companies, 65 data. Data analysis method used descriptive statistics, data quality test, classic assumption test and hypothesis test with the help of the IBM SPSS for windows computer .

RESULTS AND DISCUSSION

Results of Descriptive Statistics

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
Free Cash Flow	65	1,12	2.00	1.8220	,23462
Company Size	65	, 12	1.20	,5520	,30056
leverage	65	27,11	32,82	29.7237	1.80298

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

Dividend Policy	65	,01	1.33	,5042	,27619
Stock returns	65	,74	2.00	1.7884	,26943
Valid N (listwise)	65				

Based on Table 2, the results of the statistical descriptive analysis of the 65 samples can be seen that the average (mean) for the free cash flow variable is 1.8220 > 0.23462 (standard deviation). This figure indicates that the data used is seen as a measure in analyzing the free cash flow variable. The free cash flow has a maximum score of 2.00 and a minimum score of 1.12.

Based on Table 2, the results of the descriptive statistical analysis of the 65 samples can be seen that the average (mean) for the company size variable is 0.5520 > 0.30056 (standard deviation). This figure shows that the data used is seen as a measure in analyzing the company size variable. The company size obtained a maximum score of 1.20 and a minimum score of 0.12.

Based on Table 2 statistical analysis descriptive of 65 samples, it can be seen that the average (mean) for the leverage variable is 29.7237 > 1.80298 (standard deviation). This figure shows that the data used is seen as a measure in analyzing the leverage variable . Meanwhile, leverage has a maximum score of 32.82 and a minimum score of 27.11.

Based on Table 2, the results of the statistical descriptive analysis of the 65 samples can be seen that the average (mean) for the dividend policy variable is 0.5042 > 0.27619 (standard deviation). This figure shows that the data used is seen as a measure in analyzing dividend policy variables. The dividend policy has a maximum score of 1.33 and a minimum score of 0.01.

Based on Table 2, the results of the descriptive statistical analysis of the 65 samples can be seen that the average (mean) for the stock return variable is 1.7882 > 0.29873 (standard deviation). This figure indicates that the data used is seen as a measure in analyzing stock return variables. The stock return obtains a maximum number of 2.00 and a minimum value of -0.65.

Classic assumption test

Normality test

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

Table 3 One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		65
Normal Parameters [a,b]	Means	,0000000
	std. Deviation	,25328873
Most Extreme Differences	absolute	,102
	Positive	.082
	Negative	-,102
Kolmogorov-Smirnov Z		,821
asymp. Sig. (2-tailed)		, 511

a. Test distribution is Normal.

b. Calculated from data.

Source: Secondary data processed in 2023

Based on the results of the normality test for the research variables, it shows that all research variables have a significance value greater than 0.05 which can be seen in the Asymp value. Sig. (2-tailed) namely 0.511 > 0.05 so it can be concluded that the residuals are normally distributed.

Table 4 Heteroscedasticity Test

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	9,644	7,193		1,341	,185
	Free Cash Flow	-2,851	1,624	-,223	-1,756	.084
	leverage	-,613	1,294	-.062	-,474	,637
	Company Size	-,322	,211	-,194	-1.526	, 132
	Dividend Policy	,205	1,379	,019	,149	,882

a. Dependent Variable: LnRes

Source: Secondary data processed in 2023

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

Based on the garden test that has been carried out, it shows that there are no independent variables that are statistically significant affecting the dependent variable residual absolute value (ABS_RES). This result can be seen from the probability of significance above the 5% confidence level (0.05). So it can be concluded that the regression model does not contain heteroscedasticity, then H0 is accepted (no heteroscedasticity).

Table 5 Multicollinearity Test

Coefficients [a]

Model		Collinearity Statistics	
		tolerance	VIF
1	Free Cash Flow	,938	1,066
	leverage	,900	1,111
	Company Size	,940	1,063
	Dividend Policy	,891	1.122

a. Dependent Variable: Stock Return

Source: Secondary data processed in 2023

Multicollinearity testing in the table above, the test results show the tolerance value of each variable has a tolerance value of > 0.1 and the VIF value of each variable is < 10. This shows that there is no multicollinearity between the independent variables in the study This.

Table 6 Autocorrelation Test

	Unstandardized Residuals
Test Value [a]	-,05667
Cases < Test Value	32
Cases >= Test Value	33
Total Cases	65
Number of Runs	30
Z	-,873
asymp. Sig. (2-tailed)	,382

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

a. Median

Source: Secondary data processed in 2023

Based on table 4 above, it can be seen that the Asymp value of 0.382 is greater than 0.05, so it can be concluded that there are no autocorrelation symptoms or problems.

Table 7 Multiple Regression Analysis

Regression test results without moderation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	-1,236	, 514		-2,406	,109
	Free Cash Flow	,554	, 114	,482	4,843	,000
	Company Size	,071	,015	,477	4,695	,000
	leverage	-,186	,090	-,208	-2,063	.043

a. Dependent Variable: Stock Return

Source: Secondary Data processed with SPSS 24

The regression coefficient of the free cash flow variable of 0.554 is the path value of p1 and indicates that every decrease of one unit of the free cash flow variable will reduce the value of stock returns by 0.554.

The regression coefficient of the company size variable is -0.186 which is the path value of p1 and shows that every one unit decrease in the company size variable will reduce the stock return value by -0.186.

The regression coefficient of the leverage variable of 0.071 is the path value of p1 and indicates that each increase of one unit of the leverage variable will increase the stock return value of 0.071.

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

Table 8. Moderation Regression Analysis

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	1,794	.056		31,954	,000
	X1_M	.082	.036	,294	2,309	.025
	X2_M	-,016	.035	.047	,458	,649
	X3_M	-.093	.044	-,293	-2,144	.036

a. Dependent Variable: Stock Return

The regression coefficient value of the interaction between dividend policy and free cash flow is 0.082 in this study, which means that with the interaction of dividend policy and free cash flow , stock returns will decrease by 0.082.

The regression coefficient value of the interaction between dividend policy and firm size is 0.016 in this study, which means that with the interaction of dividend policy and firm size, stock returns will increase by 0.016.

The regression coefficient value of the interaction between dividend policy and leverage is -0.093 in this study, which means that with the interaction of dividend and leverage policies , stock returns will decrease by -0.093.

DISCUSSION

The results of this study also show that manufacturing companies have the necessary free cash flow to finance all projects with positive current stock returns . Free cash flow is free cash flow available to be given to shareholders (investors) and debt owners, after the company invests in fixed assets in maintaining ongoing operations. The greater the value of free cash flow, the company is able to provide satisfaction for investors, which means the company is able to provide optimal profits. Free cash flow can affect stock prices because if free cash flow is paid as dividends to shareholders, the share price will increase and will generate greater profits through the sale of shares (Astuti and Khuzaini, 2019) . Research

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

consistent with signaling theory is a theory that emphasizes the dissemination of information needed by investors, the importance of information for investors because it is used for decision making. According to Jawas & Sulfitri (2022) said signal theory will be a quality company if it can send a signal to the market, the hope is to be able to find companies that are of good quality with companies that are of poor quality.

Company size is a measure that describes the size of the company which can be assessed from the total value of the company's assets. Large company size indicates that the company is experiencing good growth (Prasetyrini, 2013). Company size is a reflection of the size of the company related to the opportunity and ability to enter the market with the opportunity and ability to enter the capital market and other types of external financing that shows the ability to borrow other external financing that shows the company's ability to borrow (Adiwibowo, 2018). Departing from signal theory, signaling theory emphasizes the importance of the influence of information informed by the company on investment decisions from outsiders, or in this case investors. Signal theory aims to enable investors to assess whether a company is good or bad. Information about company size (size) is used by investors to minimize the risk of uncertainty regarding the company's future. The level of uncertainty for large-scale companies tends to be lower because the high value of the company tends not to be influenced by market conditions. Conversely, large-scale companies can provide diversity and influence overall market conditions. This condition can be expressed by the low level of investment risk of large-scale companies in the long term. Whereas in small-scale companies, the level of uncertainty in the future tends to be greater, so the level of investment risk is greater in the long term (Kurniawan and Suwardi, 2021).

Leverage is the relationship between a company's debt and capital or assets. Debt to Equity Ratio (DER) is a ratio that compares total debt to total own capital. If leverage can be managed properly, it can increase the company's stock return . The lower the DER, the lower the company's burden on outsiders, both in the form of principal or loan interest or in the form of loan interest. If the company's burden is getting lighter, then the company's performance will increase and have an impact on the stock returns obtained. Departing from signal theory, signaling theory emphasizes the importance of the influence of information informed by the company on investment decisions from outsiders, or in this case investors. Signal theory aims to enable investors to assess whether a company is good or bad.

Corresponding Author: * **Achmad Fadel Farid**. [1] Master of Accounting, Faculty of Economics and Business, Hasanuddin University Makassar.

Information about the company's leverage level is used by investors to find out the ratio of the company's debt used to finance the company's assets to the company's equity. When company executives have better information about the company, they will be encouraged to convey this information to potential investors so that the company's stock price increases. The correlation between signal theory and leverage is that the higher the leverage, the greater the company's ability to fulfill all its obligations using its own capital.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results and findings of the discussion described in the previous chapters, the conclusions that can be drawn include :

1. Free cash flow has a positive and significant effect on stock returns . The amount of free cash flow can increase stock returns .
2. Company size has a positive and significant effect on stock returns . Investors do not pay much attention to the size of the assets owned by the company.
3. Leverage has a negative but significant effect on stock returns . This shows that leverage is considered a risk for investors, so that the greater the leverage, which means the higher the risk, the lower the return.
4. Dividend policy is able to moderate the effect of free cash flow on stock returns .
5. Dividend policy is able to moderate the effect of firm size on stock returns . Dividend policy can increase stock returns for companies with large assets and vice versa. Dividend policies can also reduce stock returns for companies with small assets.
6. Dividend policy is not able to moderate the relationship between leverage variables on stock returns . Dividend policy is not able to increase stock returns when leverage is high and reduce stock returns when leverage is low.

Suggestion

Based on the research that has been carried out there are several suggestions that can be submitted, as follows:

1. Future researchers are expected to be able to add other variables that affect stock returns in order to obtain more accurate results.
2. studies can reexamine the moderating variable in this study by adding a sample of the study.

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