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The role of dividend policy as an intervening variable in the influence of financial fundamental factors on blue chip stock returns

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ABSTRACT

The climate of investment plays a crucial role in the economic structure, where investors seek stocks from companies with a large market capitalization as market leaders because it reflects substantial company growth with relatively low risks. This study is essential as an investor analysis of evaluating the financial condition of a company and assessing the company's ability to survive long-term investment, as well as projections on how to understand the potential of dividend policy in distributing profits. This study will use Software Eviews 12 with multiple regression analysis panel data to test the hypothesis and the intervening variable. The sample data consists of 22 LQ45's index blue chip companies listed on the IDX 2018-2022 period using a Purposive Sampling approach. Based on the research analysis EPS is not significant for dividend policy, PER has a significant impact on dividend policy, PBV does not impact dividend policy, EPS and PER both have a positive impact on stock returns. PBV, on the other hand, has a negative and significant effect on stock returns. Furthermore, PBV has a negative and significant effect on stock returns. Moreover, dividend policy significantly influences stock returns negatively. Additionally, dividend policy cannot mediate the EPS, PER, and PBV variables on stock returns.

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1. INTRODUCTION

Investment climate is a condition where factors such as economic stability, regulations, and government policies refer to the risks and return levels that investors will encounter. The investment climate is a benchmark for how favorable and secure the investment environment is for investors. Amidst the dynamics of global uncertainty, the increasing domestic investments indicate that domestic investors perceive better future economic growth. Investment plays a crucial role in economic revitalization, where an increase in assets leads to the emergence of new business categories and can boost household consumption. As the amount of investment grows, it contributes to the country's national income and vice versa. With the evolution of the capital market, investors seek stocks from companies with large capitalization as market leaders because such companies reflect high growth with relatively low risks.

Blue chips are known for having large market capitalization and high liquidity levels. The greater the market capitalization of a company, the greater the potential for increasing the value or price of the company (Hendarsih & Harjunawati, 2020). Blue chip stocks are also first-tier stocks, outstanding in the LQ45 index. These are 45 companies that possess strong fundamentals, large market capitalization, and high liquidity (Handayani et al., 2019). The performance of the LQ45 index is known for its high fundamental growth, making it perceived as capable of generating the best returns in line with expectations. The LQ45 index only sometimes guarantees that investors will consistently receive increasing returns, as there are fluctuating conditions. Therefore, investors must conduct thorough analyses to minimize risks since various factors can contribute to the fluctuation of stock returns. Investors can assess the company's financial health by performing fundamental analysis, which includes calculating earnings per share, comparing earnings to stock prices, and stock valuation in this research.

Investors typically look at companies with a relatively stable rate of return, both in the short term for capital gains and in a long time, expecting cash dividens or additional shares, thereby increasing the shareholder's stake. Stock return is the result of the return on investment obtained by an investor from owning shares. Investors expect a positive return for the risks they take in investing. As the returns on a particular entity's stock increase, the risk that investors must bear also grows. The volatility of stock returns indicates the weak financial performance of the entity, resulting in negative returns on its stock (Mutia & Martaseli, 2018). Dividend policies are employed by investor management to determine the amount of dividends that shareholders will receive from their investment gains, as well as when dividends will be paid. The larger a company's dividend payout ratio (DPR), the higher the dividend distribution from that company (Asrini, 2020). Return plays a substantial role in determining the value of an investment, prospective investors can gauge the magnitude of the profit they will gain from owning shares through stock returns, which serve as a benchmark. The ratio comparing earnings per share to the number of outstanding shares is known as the EPS ratio. It is considered a benchmark for an entity's ability to generate profit. A high EPS value is highly beneficial for investors who invest their capital and positively impacts the company's financial health (Rivaldo & Malini, 2021). An increasing Price to Earnings ratio (PER) will raise the stock price, influencing the magnitude of the net profit per share. The increase in EPS is attributed to the high stock price, and a rising stock price can enhance stock returns (Mutia & Martaseli, 2018). PBV is the market price ratio to the book value per share. A high PBV ratio signifies increasing market confidence in the company. This may increase the company's stock demand, driving up the market price and resulting in higher stock returns (Pandaya et al., 2020).

According to the data presented, this study aims to identify the influence of financial fundamentals on stock returns with the Dividend Payout Ratio (DPR) as a mediation variable. The study utilizes annual financial report data from Blue Chip companies listed in the LQ45 index on the IDX for 2018-2022. The implications of researching the influence of fundamental factors on stock returns can impact investment decisions as a strategy to assess a company's stock performance. This involves considering how a company's management distributes dividends to ensure that the generated returns align with expectations. It helps investors in determining whether to buy or sell a stock, thereby avoiding the risks associated with a company's instability. The goal is to provide investors with a benchmark for evaluating and predicting the potential returns and risks of the LQ45 index. Although LQ45-indexed blue-chip stocks are known for their strong performance, being flagship stocks, this does not guarantee immunity from market fluctuations. This research is expected to provide a more accurate perspective on the stability and growth potential of blue-chip company stocks. It aims to assist companies in aligning their financial strategies to enhance investor confidence and the company's value in the financial market. Ultimately, this alignment is intended to help achieve the expected stock returns. Therefore, investors must continually analyze the stock performance to achieve better investment objectives.

2. RESEARCH METHOD

Signal theory involves how companies convey information to investors or shareholders about the company's condition and whether these signals are beneficial or detrimental. This theory is employed by company management to address information asymmetry. According to signal theory, managers and stakeholders have asymmetric information, indicating an information gap. Signal theory is essential information for business practitioners or investors as it serves as a record, description, or explanation of the company's past conditions, current potential, and the actions management has taken to fulfill shareholder expectations and its impact on the entity's sustainability (A. P. Lestari et al., 2020). Signal theory provides a perception of profit opportunities and the performance prospects of a company, which can enhance investor interest in achieving stock returns that align with their expectations during long-term investments.

Stock return is utilized to measure the performance of stock investments. Investors typically seek investments with the potential to generate higher returns. High mobility in stock returns or asset prices is critical in the stock market for detecting exogenous causes causing such changes and their effects on the stock market (Malini, 2020). Gain or loss on capital is related to the difference in value of the current market price and the price in the prior period. A capital gain occurs when the price of an investment exceeds its value in the last period. However, if the price of an investment is lower than the previous year, it is considered a capital loss. Dividends refer to the company's financial gains, which are then allocated to its shareholders. The decision on the amount of cash dividends to be distributed is determined in a General Meeting of Shareholders (GMS).

Fundamental factors involve the analysis of the health and financial performance of a company. Fundamental factors are utilized to acquire information and depict the company's condition (Widyanto et al., 2019). Fundamental factor analysis is conducted to assess the essential condition of a company, both financially and non-financially, and to determine the company's stock value, whether it is underpriced or overpriced. The fundamental approach centers on analyzing the company's condition, considering economic factors, especially financial ratios that reflect the company's performance, by examining the annual financial reports published each year (Syahba Adrisa et al., 2021). In this research, fundamental analysis is conducted using financial ratios to assess the company's condition, employing indicators such as EPS, PER, and PBV concerning the stock return through an indirect variable, namely dividend policy.

A dividend policy is a strategy from company executives to determine how profits will be distributed after a certain period. This decision involves considering whether to distribute profits as dividends or retain them as additional capital for future investments, aiming to encourage the expansion and development of the company (Herwin, 2018). Dividend policy with the approach of the Dividend Payout Ratio (DPR) indicator is a ratio that calculates the proportion between dividends per share and earnings per share obtained by an entity (Tri Yunika et al., 2022). A company experiencing increased growth tends to have lower dividend payments, whereas a company with declining growth tends to have higher dividend payments (Herwin, 2018).

H1: Earning Per Share (EPS) positively significant impact on dividend policy

EPS is a ratio that calculates the profitability per share obtained (Asrini, 2020). An increase in EPS indicates that the company is in a growth phase and requires additional capital. Companies that utilize external capital tend to provide more dividends to investors, resulting in a higher Dividend Payout Ratio (DPR). However, when a company uses internal capital, dividend distribution and the Dividend Payout Ratio (DPR) tend to be lower because those profits are reinvested for development, such as expansion. Based on the findings of (Anismawati, 2019) research, EPS significantly impacts DPR. A higher EPS value increases the potential for cash dividends to be paid to stakeholders, depending on the company's policy.

H2: Price to Earning Ratio (PER) a positively significant impact on dividend policy

PER is a ratio that assesses an entity's capability to obtain net profits and estimates the dividend value to be paid. According to previous research by (Asrini, 2020) The PER variable significantly influences the DPR ratio. An increase in dividend payments indicates the company's net profit is rising. According to the research (Khoirina & Meidasari, 2021), PER influences DPR. Investors consider a substantial increase in dividend payments as something beneficial and indicative that the company, with positive prospects, can enhance the PER ratio.

H3: Price to Book Value(PBV) positively significant impact on dividend policy

PBV is a ratio that compares the per-share market price to the per-share book value, influencing the entity's decision on profit distribution to shareholders. Based on research (A. P. Lestari et al., 2020) PBV significantly influences DPR (Dividend Payout Ratio). A high PBV indicates an increased market valuation compared to the book value of shares, and the profits obtained represent a significant opportunity for the entity to distribute dividends to shareholders. This aligns with the findings of (D. F. Lestari, 2022) research, the significant influence of PBV on DPR is attributed to the potential increase in capital, which can lead to more significant profits and affect the dividend distribution policy.

H4: Earning Per Share (EPS) positively significant impact on stock returns

EPS is the ratio of net profit before tax to the stock price. EPS indicates how much profit is earned for each share the investors own. According to the research findings by (Anjani & Syarif, 2019), EPS memiliki pengaruh cukup besar terhadap *return* saham, EPS illustrates how well a company manages its capital by generating high profitability. An increase in earnings per share attracts investors to invest. Higher EPS values raise the demand for company shares, influencing stock prices and increasing returns (Tri Yunika et al., 2022).

H5: Price Earning to Ratio (PER) a positively significant impact on stock returns

A higher PER (Price-to-Earnings Ratio) attracts investors to invest in the company, impacting the fluctuation of the entity's stock prices and influencing the magnitude of stock returns. This is in line with the theoretical study by (Mutia & Martaseli, 2018), that the higher the PER ratio of a stock, the higher the market price, and the impacts the earnings per share growth. This can lead to a significant increase in stock returns. This aligns with the research findings by (Pradnyaningsih & Suarjaya, 2022), the PER ratio has a positive and significant impact on stock returns, and changes in PER can lead to instability in stock returns for the company.

H6: Price to Book Value (PBV) positively significant impact on stock returns

PBV is a ratio that measures the performance of the stock market price about the stock's book value. Positive investor perception occurs when stock prices rise in the market, which tends to provide higher returns for shareholders. According to the research findings (Ristyawan, 2018), PBV ratio significantly impacts stock returns; a high PBV ratio indicates that it can increase stock prices and suggests that the higher profits generated by the entity reflect better company growth performance. According to the findings of (Jaya & Kuswanto, 2021), If PBV has a positive impact, the stock return will increase. Investors perceive companies with increasing PBV as having good financial performance, leading to high demand and increased stock prices, influencing higher stock returns.

H7: Dividend policy negatively significant impact on stock returns

Dividend policy is how management distributes a portion of profits to stakeholders in exchange for ownership of shares. The Dividend Payout Ratio (DPR) is the result of comparing the dividends paid to earnings per share. DPR is assessed based on the amount of dividends distributed. A low DPR strengthens the company's financial condition as it serves as an additional source of capital, and investors receive smaller profit distributions. Conversely, investors benefit more if the DPR ratio is more significant, weakening the company's financial position because investors receive more significant profits. An increase in dividend distribution will decrease the return received, and a decrease in dividend distribution will increase stock returns (Pandaya et al., 2020). So, the Dividend Payout Ratio (DPR) significantly negatively impacts stock returns.

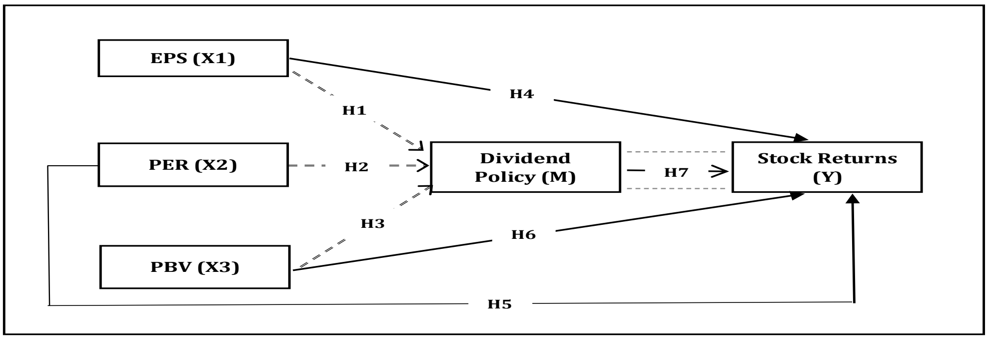

Figure 1. Conceptual framework

Quantitative research is a method that utilizes numerical data for structured information gathering (Sinambela, 2020). The research was conducted on the stock exchange IDX, and the data source comprised secondary data obtained through the documentation method, specifically financial reports or annual reports published on the companies' official websites and IDX (www.idx.co.id). The population studied in this research consisted of blue-chip corporations in the LQ45 index. The sample data included 22 companies selected using *Purposive Sampling* criteria: companies in the LQ45 stock index consecutively from 2018 to 2022, companies publishing financial reports, and companies withholding dividends for no more than one year during 2018-2022. The analysis method utilized was the Eviews 12 software, employing a multiple linear regression approach with a structural equation path analysis for panel data. The equation is as follows: a) Equation of the first sub-structural : The influence of EPS, PER, and PBV on, dividend policy (DPR). b) Equation of the second sub-structural : The influence of EPS, PER, PBV, and dividend policy (DPR) on stock return.

Y (DPR) **= α + β1 EPS + β2 PER + β3 PBV +** ε_1
Y (Stock Returns) **= α + β1 EPS + β2 PER + β3 PBV + β4 DPR +** ε_2

Description:

Y (sub-structural 1)	= Dividend Payout Ratio (intervening variable)
Y (sub-structural 2)	= Stock Returns (dependent variable)
α	= Constant
β	= Regression coefficient independent variable
X1	= EPS
X2	= PER
X3	= PBV
ε	= *Error term*

Stock Returns
The stock return is the investor's right in the form of returns from stock investments, whether the amount of profit or loss from stock investment, calculated through the difference between the stock's selling price and the purchase price (Hartanti et al., 2019).

$$\textit{Stock Return} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Earnings Per Share (EPS)
EPS measures a company's ability to generate income over a year, calculated by dividing the after-tax earnings by the average number of outstanding shares (A. P. Lestari et al., 2020).

$$EPS = \frac{\textit{Earning After Tax (EAT)}}{\textit{Total Shares Outstanding}}$$

Price to Earning Ratio (PER)
PER is a ratio to measure the potential risk of rising and falling stock prices related to the company's ability to generate profits. The PER ratio is calculated by comparing share price and net income per share (D. F. Lestari, 2022).

$$PER = \frac{\textit{Stock Price}}{\textit{Earning Per Share (EPS)}}$$

Price to Book Value (PBV)
PBV is a ratio that shows the extent of the market value of shares compared to the book value of shares. A higher PBV ratio indicates that the market has more confidence in the company's future performance because stock valuation reflects that the company is in a period of growth (Prastyawan et al., 2022).

$$PBV = \frac{\textit{Price Per Share}}{\textit{Book Value of Shares}} \times 100\%$$

Dividend Policy
Dividend policy is the management's decision within an entity regarding the distribution of profits earned in a given period, whether to distribute all or part of it as dividends and retain the rest as

retained earnings. This is measured through the Dividend Payout Ratio (DPR), which represents the proportion of dividends declared as cash dividends or in forms other than cash about net profits (Iswahyuni, 2018).

$$DPR = \frac{Dividen\ Per\ Share\ (DPS)}{Earning\ Per\ Share\ (EPS)}\ x\ 100\%$$

3. RESULTS AND DISCUSSIONS

This research analyzes fundamental financial factors using the financial ratios approach of EPS, PER, and PBV about stock returns, with the intervening variable indicated by the DPR ratio. The data sample consists of 22 blue-chip stocks listed on the IDX included in the LQ45 index during 2018-2022, selected through *Purposive Sampling.*

Descriptive Statistics

Table 1. Descriptive statistics

	EPS	PER	PBV	DPR	RT
Mean	788,6036	16,99818	4,373636	0,488091	0,020182
Median	3774500	14,05000	1,650000	0,400000	-0,035000
Maximum	16707,60	59,30000	60,70000	1,770000	1,360000
Minimum	-154,1000	-10,70000	0,100000	0,000000	-0,830000
Std. Dev.	1803,168	11,56382	10,12873	0,331581	0,340067
Observation	110	110	110	110	110

Regarding the outcomes from Table 1, descriptive statistics with a sample size of 110 observation data for the variable EPS (X1) have an average value of Rp. 788,60 with an average deviation of Rp. 1803,16, a maximum value of Rp. 16707,60 for ITMG in 2022, and a minimum value of -Rp. 154,1 for the company PGAS in 2020. PER (X2) has an average value of 16,99x with an average deviation of 11,56x, a maximum value of 59,30x for the company INTP in 2018, and a minimum value of -10,70x for the company PGAS in 2020. PBV (X3) has an average value of 4,37x with an average deviation of 10,12x, a maximum value of 60,70x for UNVR in 2019, and a minimum value of 0,10x for BBTN in 2018. The intervening variable, the Dividend Payout Ratio (DPR), has an average of 0,488 with an average deviation of 0,331, a maximum value of 1,77 for INTP in 2018, and a minimum value of 0,0000 for BBTN in 2020, MNCN in 2020, and PGAS in 2020. Stock return (Y) averages 0,020 with an average deviation of 0,340, a maximum value of 1,3600 for MNCN in 2019, and a minimum value of -0,8300 for UNVR in 2020.

Model Selection Test

The model selection testing aims to determine which regression analysis model is the best among CEM, FEM, or REM. If the probability value is > 0.05 significance level or the probability value is < 0.05 by employing the selected analysis model in the Chow test, Hausman test, and Lagrange Multiplier test.

Table 2. Result of selecting the sub-structural regression model I

	Chow	Hausman	Lagrange Multiplier
Prob.	0,0000	0,2189	0,0000
Selected Models	FEM	REM	REM
Conclusion	*Random Effect Model* (REM)		

In Table 2, the model selection for the first sub-structural regression, the Chow test (0.0000), indicates that the selected model is FEM, and the Hausman test (0.2189) suggests the selected model is REM. The Lagrange Multiplier test (0.0000) indicates that the selected model is REM.

Table 3. result of selecting the sub-structural regression model II

	Chow	Hausman	Lagrange Multiplier
Prob.	0,2276	-	0,8041
Selected Models	CEM	-	CEM
Conclusion	*Common Effect Model* (CEM)		

In Table 3, the model selection for the second sub-structural regression, the Chow test (0.2276), suggests the regression model is CEM. In contrast, the Lagrange Multiplier test (0.8041) indicates that the selected model is CEM. Based on the specification test results for the first sub-structural regression, it is concluded that the suitable model for the first sub-structural is REM. Meanwhile, for the second sub-structural, the best model for the second sub-structural is CEM.

Classic Assumption Test
Multicollinearity Test

Table 4. sub-structural multicollinearity test II CEM model

	EPS	PER	PBV	DPR
EPS	1	-0.2615014536948352	-0.05769009071219268	-0.02110371930544129
PER	-0.2615014536948352	1	0.4250802524292539	0.3539705191003273
PBV	-0.05769009071219268	0.4250802524292539	1	0.08121944879131178
DPR	-0.02110371930544129	0.3539705191003273	0.08121944879131178	1

Considering the outcomes in Table 4, the multicollinearity test for the second sub-structural between variables EPS (X1), PER (X2), PBV (X3), and dividend policy (DPR) shows correlation coefficients below 0.80. It can be concluded that there is no multicollinearity issue or correlation problem among variables in the second sub-structural CEM model.

Heteroscedasticity Test

Table 5. sub-structural heteroscedasticity test II CEM model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	-0,00000377	0,00000665	-0,567053	0,5719
PER	-0,001633	0,001358	-1,202369	0,2319
PBV	0,001948	0,001321	1,475093	0,1432
DPR	-0,048157	0,039902	-1,206859	0,2302

In the results from Table 5, the heteroskedasticity test for the second sub-structural regression in the CEM model using the Glejser test concludes the EPS (X1) has a probability value of (0.5719) > significance level (0.05), PER has a probability value of (0.2319) > (0.05), PBV (X3) has a probability value of (0.1432) > (0.05), and the intervening variable dividend policy (DPR) has a probability value of (0.2302) > (0.05). Therefore, it is stated that in the second sub-structural regression model of CEM, there is no heteroskedasticity for EPS, PER, PBV, and DPR, considering the absolute residual values (RESABS) for each variable are > 0.05.

Hypothesis Testing (Partial)

Table 6. Hypothesis test (T-Test) REM model on dividend policy

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	0,0000163	0,0000158	1,028203	0,3062
PER	0,010054	0,002697	3,727910	0,0003
PBV	-0,006414	0,004846	-1,323613	0,1885
Weighted Statistics				
Root MSE	0,223312	R-squared		0,116080
Mean dependent var	0,196819			0,091063
S. D. dependent var	0,238610	S.E. of regression		0,227486
Sum squared resid	5,485505	F-statistic		4,640103
Durbin-Watson stat	1,515429	Prob(F-statistic)		0,004343

According the Table 6, the partial test with the REM regression model shows that the independent variable EPS (X1) has a coefficient value of 0.0000163 with a probability of (0.3602) > (0.05), PER (X2) has a coefficient value of 0.010054 and a probability (0.0003) < (0.05), PBV (X3) has a coefficient -0.006414 and a probability value of (-1.323613) > (0.05). Therefore, it can be stated that partially, EPS (X1) is not significant to DPR (M), PER (X2) has a significant impact on DPR (M), and PBV (X3) has a negative and not significant impact on DPR (M).

Table 7. Hypothesis test (T-Test) CEM model on stock returns

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	0,0000570	0,0000143	3,995120	0,0001
PER	0,004469	0,002115	2,112778	0,0370
PBV	-0,008088	0,002663	-3,037895	0,0030
DPR	-0,152846	0,069959	-2,184781	0,0311
Weighted Statistics				
Root MSE		0,310109	R-squared	0,203979
Mean dependent var		-0,002983	Adjusted R-squared	0,173655
S. D. dependent var		0,349343	S.E. of regression	0,317407
Sum squared resid		10,57846	F-statistic	6,726525
Durbin-Watson stat		1,815729	Prob(F-statistic)	0,000074

From the Table of 7 using the CEM regression model, show that EPS (X1) has a coefficient of 0.000057 with a probability (0.0001) < (0.05), the PER ratio (X2) has a coefficient 0.004489 and a probability value (0.0370) < (0.005), the PBV ratio (X3) has a coefficient -0.008088 and a probability (0.0030) < (0.05), and the dividend policy (DPR) has a coefficient -0.152846 with a probability value of 0.0311 < 0.005. Based on the results, it can be concluded partially, EPS (X1) has a significant positive impact on stock returns (Y), PER (X2) has a significant impact on stock returns (Y), PBV (X3) has a significant negative impact on stock returns (Y). The DPR ratio (M) significantly negatively impacts stock returns (Y).

F-Test (Simultaneous)

The results from Table 6, the selection of the first sub-structural regression model used, namely the Random Effect Model (REM), shows that the F-statistic value (0.004343) < (0.05). Additionally, the results from Table 7, the selection of the second sub-structural regression model used, namely CEM, shows that the probability value of the F-statistic (0.000074) < (0.05). From both of these tables, it can be concluded that there is a simultaneous influence between EPS (X1), PER (X2), and PBV (X3), with the first sub-structural on dividend policy (M) as well as the second sub-structural on stock returns (Y).

Coefficient of Determination

Based on the results from Table 6, the REM regression model obtained an R-squared value of 0,116080, and the results from Table 7 with the second sub-structural model, namely CEM an R-squared value of 0,203979. Therefore, it is stated that in the first sub-structural, the EPS (X1), PER (X2), and PBV (X3) ratios can explain the dividend policy (M) by 11,6%, with the remaining 88,4% explained by other factors outside the research regression model. Meanwhile, in the second sub-structural, the EPS (X1), PER (X2), PBV (X3), and DPR (M) ratios can explain stock returns (Y) by 20.4%, with the remaining 79,6% expressed by other variables outside the research regression model.

Sobel Test

Table 8. Sobel test

Hypothesis	Formula t-statistic	t-statistic Results	t-table
The influence of EPS (X1) on Stock Return (Y) with DPR ratio as an intervening variable.	$\frac{ab}{\sqrt{(b^2SEa^2)+(a^2SEb^2)}}$	1,0247	2,093
The influence of PER (X2) on Stock Return (Y) with DPR ratio as an intervening variable.		0,0030	
The influence of PBV (X3) on Stock Return (Y) with DPR ratio as an		1,1395	

intervening variable.

The results of the measurement in Table 8, sobel test on EPS (X1) with t-value (1.0247) < t-table (2.093), PER (X2) with t-value (0,0030) < t-table (2,093), PBV (X3) with t-value (1,1395) < t-table (2,093) indicate that indirectly, dividend policy (DPR) cannot mediate the influence of EPS (X1), PER (X2), and PBV (X3) on stock return (Y) because the t-values for each independent variable are smaller than the t-table value.

H1: Earning Per Share (EPS) positively significant impact on dividend policy

Based on the test results, earnings per Share (EPS) has an insignificant impact on the dividend policy (DPR), **rejecting H1**. This implies that the magnitude of EPS owned by blue-chip companies indexed in LQ45 is not a significant factor in determining the Dividend Payout Ratio (DPR) because fluctuating profits depict unstable company performance. With varied data, companies with low EPS values also distribute dividends similarly to companies with high EPS values. Not all entities generate profits and distribute dividends; some companies use profits to enhance corporate growth, affecting stock value. This finding aligns with the research by (A. P. Lestari et al., 2020; I Made & Devi Sunitha, 2022).

H2: Price to Earning Ratio (PER) a positively significant impact on dividend policy

The test results indicate that the Price to Earnings Ratio (PER) significantly and positively impacts the dividend policy (DPR), stating that **H2 is accepted**. This aligns with research by (Khoirina & Meidasari, 2021), who stated that fluctuations in PER values will affect the magnitude of the dividend policy (DPR). The growth of dividends as a positive signal that the company has good potential attracts investors to invest their capital with the expectation of returns, which can increase the PER ratio. This finding contradicts the research conducted by (Asrini, 2020).

H3: Price to Book Value(PBV) positively significant impact on dividend policy

Based on the conducted tests, the Price to Book Value (PBV) does not affect and tends to have a negative impact on dividend policy (DPR), so **H3 is rejected** this statement differs from the research (D. F. Lestari, 2022; A. P. Lestari et al., 2020). The results indicate that the high or low PBV does not correlate with the ups and downs of distributed dividends. PBV is the ratio of the stock price to equity, where a high stock price suggests that the market is above its sector, which can lead to overvaluation and potentially low capital gain growth. Investors consider it more profitable to have a potential capital gain in the future than small dividend income (Zuslaini et al., 2022).

H4: Earning Per Share (EPS) positively significant impact on stock returns

Based on the conducted tests, the EPS ratio positively and significantly impacts stock returns, so **H4 is accepted.** This testing is in line with the research of (Anjani & Syarif, 2019; Asrini, 2020; Saraswati et al., 2020), where the magnitude of the EPS value measures a company's capability to generate profit per share. With an increase in the EPS ratio, the returns received will also increase because investors view it as a positive sign for the profit’s growth.

H5: Price Earning to Ratio (PER) a positively significant impact on stock returns

According to the test results, the PER ratio positively impacts stock returns, so **H5 is accepted.** An entity with a high PER can increase stock prices, and the earnings per share investors receive will also increase the returns. The PER value reflects increasing profit growth, making investors more optimistic about the expected stock returns. The result is congruent and supported by research (Pandaya et al., 2020; Pradnyaningsih & Suarjaya, 2022).

H6: Price to Book Value (PBV) positively significant impact on stock returns

Referring to the test results, the PBV ratio significantly negatively impacts stock returns, so it can be stated that **H6 is rejected** this finding contradicts the results of the study (Jaya & Kuswanto, 2021). It is consistent with the study’s findings (Prastyawan et al., 2022), where PBV provides information on how the market values a stock. A high PBV makes the stock overvalued, causing investors to avoid buying it, and this can lead to a sharp decline in stock demand, affecting stock prices and potentially reducing stock returns. A low PBV, on the other hand, indicates that a higher return will be obtained because the stock price will reach a balance point with the stock's book value, which has the potential to increase the stock price more significantly and improve stock returns.

H7: Dividend policy negatively significant impact on stock returns

Based on the test results, the Dividend Policy (DPR) has a negative and significant impact on stock returns, so it can be stated that **H7 is accepted.** Distributing dividends in a minimal amount and using profits for investment development capital can result in higher long-term stock returns. If dividend payments are substantial, the investment capital will decrease, affecting stock prices and reducing stock returns, leading to a decline in the company's expansion growth. This research is supported by previous research results, namely (Suhara et al., 2022; Wiyono & Ramlani, 2022; Pandaya et al., 2020).

Dividend Policy (DPR) can mediate the influence of EPS, PER, and PBV on Stock Return

Referring to the results of the Sobel test, Dividend Policy (DPR) is unable to mediate the influence of EPS (X1), PER (X2), and PBV (X3) on stock returns. Dividend policy refers to how a company's management distributes profits through dividends. EPS is the profit per share ratio, and if the profit is distributed as dividends, it can reduce earnings per share. PER measures how expensive a company's stock is relative to its earnings per share. Distributing profits as dividends can reduce earnings per share and impact a lower PER value. A high PBV ratio indicates that the stock market price is rising, and fluctuations in stock prices affect the profits generated and the dividends distributed. If stock prices decline, a company may increase dividend payments to maintain investor interest, resulting in decreased earnings received and a potential reduction in stock returns.

4. CONCLUSION

As the results, in the first sub-structural part, there is a simultaneous relationship among the variables EPS, PER, and PBV toward dividend policy (DPR) in the REM regression model, with an R Square (R2) of 11.6%, explaining the intervening variable, namely dividend policy (DPR). In the second sub-structural part, the CEM regression model shows a simultaneous effect among the variables EPS, PER, PBV, and dividend policy (DPR) on stock returns with an R Square (R2) of 20.4%, explaining stock returns. Based on the partial T-test, it can be concluded that in the first sub-structural part, EPS does not impact on dividend policy (DPR), PER has a positively significant on dividend policy (DPR), and PBV does not affect on dividend policy (DPR). In the second sub-structural part, the results show that EPS positively significantly influences stock returns, PER also has a positive significant impact on stock returns, PBV has a negative significant impact on stock returns, and dividend policy is negatively and significantly impacts stock returns. Based on the Sobel test conducted, it is found that dividend policy cannot mediate the influence of EPS, PER, and PBV on stock returns.

This study contributes to the advancement of knowledge in the field of financial investment in the capital market, particularly in enhancing financial literacy among the general public as potential investors, focuses on the decision-making process of prospective investors before engaging in investment, specifically regarding fundamental financial factors, stock returns, and dividend policies. The research was conducted with limitations, explicitly using data from the year 2020, a period marked by the outbreak of Covid-19. The study (Isnaini & Agustin, 2022), reveals a significant influence between confirmed and death cases related to the LQ45 index returns. The research findings indicate that COVID-19 impacts stock price movements, decreasing company stock return rates. Therefore, companies should communicate clearly with investors about fundamental factors affecting stock returns, including dividend policies, and provide a better understanding to investors to reduce uncertainty. Companies with large market capitalization, high liquidity, and categorized as blue-chip stocks may not necessarily have strong fundamentals. Therefore, investors are advised to assess stocks in more detail by considering the company's financial condition, growth prospects, economic conditions affecting the company, and other factors supporting the company's suitability for long-term investment. Although dividend policies, as a mediator, cannot influence the relationship between financial fundamentals and stock returns, they should still be a special consideration for investors before making investments. For future research, it is recommended that researchers not solely rely on fundamental analysis using EPS, PER, and PBV ratios, as these ratios may not provide a comprehensive overview of stock returns. Instead, a more thorough fundamental analysis could be conducted by incorporating Return on Equity (ROE), Debt to debt-to-equity ratio (DER), and Dividend Yield (DY). Researchers could also expand the research data sample to ensure the validity of research results.

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