

CHAPTER V

CONCLUSION AND RECOMENDATION

5.1 Conclusion

This research addresses three primary problems. The first problem is the inconsistent findings in previous studies regarding the effect of macroeconomic variables, coal price, market return, and financial performance ratios on stock returns. The second problem is the limited research focused on the coal sector as the underlying sector. The third problem is the limited research using the Russia-Ukraine war as a moderating variable in the relationship between fundamental factors and stock returns. Based on these issues, this study aimed to:

- Analyse and evaluate the effect of Coal Price on stock returns.
- Analyse and evaluate the effect of the exchange rate on stock returns.
- Analyse and evaluate the effect of market return on stock returns.
- Analyse and evaluate the effect of return on equity (ROE) on stock returns.
- Analyse and evaluate the effect of current ratio (CR) on stock returns.
- Analyse and evaluate the effect of total asset turnover (TATO) on stock returns.
- Analyse and evaluate the effect of debt-to-equity ratio (DER) on stock returns.
- Analyse and evaluate the effect of the earning yield (EY) on stock returns.
- Analyse and evaluate the effect of the Russia-Ukraine war on stock returns.
- Determine whether the Russia-Ukraine war moderates the effects of various financial ratios on stock returns.

The purpose of this study is to analyse the factors that influence stock returns in the coal sector, with a particular emphasis on the moderating function that the war between Russia and Ukraine plays.

This study provides a comprehensive analysis of the effects of financial ratios, macroeconomic variables, and geopolitical events on stock performance, with a focus on top coal companies in Indonesia and Australia from 2019 to 2023.

The analysis incorporates normality tests, F-tests, regression analysis, and significance testing to address all research questions. Below this the conclusion for all Hypothesis:

1. Fluctuation of Coal Price positively affects stock returns. This suggests that higher coal prices are associated with higher stock returns for coal companies during the observed period.
2. Fluctuation in exchange rates does not affect stock returns during the observed period.
3. Market return positively affects stock returns coal companies. Thus, coal companies' stock returns tend to rise when the broader market performs well.
4. ROE does not affect stock return of coal companies during the observed period
5. CR positively affects the stock return. This suggests that companies with stronger liquidity positions tend to have slightly better stock performance.
6. Total Asset Turnover (TATO) does not affect stock returns during the observed periode.
7. DER does not affect stock return during the observed period.
8. Earning Yield (EY) does not affect stock return. This implies that firms with higher earnings relative to their stock price generally exhibit stronger stock returns.
9. The Rusia-Ukraine war does not affect stock return, potentially due to mitigating factors such as increased global demand for coal or supply chain adjustments.
10. The Russia-Ukraine war does not moderate the effect of coal price fluctuation on stock return
11. The Russia-Ukraine war moderates the effect of Exchange Rate fluctuation on stock return

12. The Russia-Ukraine war does not moderate the effect of market return on stock return
13. The Russia-Ukraine war moderates the effect of ROE on stock return
14. The Russia-Ukraine war moderates the effect of CR on stock return
15. The Russia-Ukraine war does not moderate the effect of TATO on stock return
16. The Russia-Ukraine war does not moderate the effect of DER on stock return
17. The Russia-Ukraine war does not moderate the effect of EY on stock return

Model summaries show the adjusted R-squared value of 0.2292 indicates that the model's independent variables explain 22.92% of the variability in stock returns, with the remaining portion attributed to other variables not included in this study.

The study confirms that coal price is the most influential factor in determining stock returns in the coal sector, with the exchange rate also playing a significant, albeit unexpected, role. The limited impact of financial ratios and market return highlights the unique dynamics of the coal industry during the Russia-Ukraine War. These findings align with the Capital Asset Pricing Model (CAPM), which posits that external market conditions, particularly commodity price movements, significantly impact stock returns.

5.2 Limitations

The study has a number of limitations:

- During the year of 2019-2023, the scope of the analysis is limited to coal businesses that are listed on the stock markets of Indonesia and Australia simultaneously. It is possible that the findings cannot be generalized to other industries or localities.
- The study takes into account a certain collection of financial ratios and macroeconomic variables due to the variable selection process. There are

more essential elements that were not taken into consideration, such as interest rates and inflation rates, which have the potential to influence stock returns.

- With a focus on geopolitics, the research investigates the conflict between Russia and Ukraine as a moderating element. Although they may have had an effect on stock returns, other geopolitical events that occurred during the period were not taken into consideration.
- Quarterly data were used, which may have overlooked intra-quarter changes and short-term market reactions. The frequency of the data was calculated quarterly.

5.3 Theoretical Implications

The significant impacts of coal price and exchange rate on stock returns align with the Efficient Market Hypothesis (EMH), which posits that stock prices reflect all available information, including commodity pricing and macroeconomic variables. This supports the idea that external economic indicators heavily influence stock performance in commodity-driven industries like coal.

Contrary to CAPM assumptions, the lack of a significant relationship between market return and stock returns challenges the model's applicability under volatile geopolitical conditions. The unexpected positive impact of exchange rates suggests that traditional risk-return paradigms may not fully capture the dynamics of export-driven industries during periods of currency fluctuation. The marginal moderating effect of the Russia-Ukraine War on the exchange rate highlights the growing importance of integrating geopolitical risk factors into financial models, suggesting that global events can alter market behaviours in unforeseen ways.

5.3.1 Practical Implications

Advise and Implication for the business sector or private sector (Investor, trader, companies) can be measured as below:

- **Monitor Commodity Prices and Currency Movements:** Given the strong influence of coal price and exchange rate on stock returns, investors should prioritize tracking commodity price trends and currency fluctuations to guide investment decisions.
- **Incorporate Geopolitical Risk Assessments:** The marginal effect of the Russia-Ukraine War on exchange rate dynamics highlights the necessity for investors to include geopolitical risk in portfolio management strategies to mitigate unforeseen market disruptions.
- **Reevaluate Financial Metrics:** Traditional financial indicators like ROE, CR, and DER showed limited significance. Investors should adopt a more holistic approach, considering industry-specific factors and external macroeconomic conditions rather than relying solely on standard financial ratios.
- **Strategic Currency Risk Management:** The unexpected positive relationship between exchange rates and stock returns suggests that companies can benefit from proactive foreign exchange risk management, particularly in export-heavy operations.
- **Diversify Markets and Strengthen Supply Chains:** To mitigate geopolitical risks, companies should explore new markets and enhance supply chain resilience to withstand global disruptions.
- **Focus on Commodity Price Sensitivity:** Since coal price strongly impacts stock returns, companies should adopt flexible pricing strategies and cost-management practices to sustain profitability amidst commodity price volatility.

5.3.2 Policy Makers Implication

The Russia-Ukraine war has brought unexpected benefits, or a "windfall," to coal-producing countries due to increased demand and elevated prices. However, relying solely on this windfall can expose these countries to future volatility, especially as global energy markets shift, and geopolitical tensions fluctuate.

Policymakers should consider the following strategies to maximize the current benefits while preparing for long-term resilience:

- **Establish a Windfall Tax for Strategic Investments:** Policymakers could implement a temporary windfall tax on extra profits earned by coal producers due to geopolitical tensions. Revenue from this tax could be channeled into infrastructure for diversifying energy sources, such as renewable energy projects, to ensure long-term sustainability.
- **Create a Strategic Reserve Fund:** Part of the windfall earnings could be allocated to a national reserve fund to provide financial stability to coal-producing regions during future price drops. This fund could also help stabilize the economy during downturns by offering subsidies or assistance to coal-related businesses and workers affected by price volatility.
- **Incentivize Diversification in Energy and Exports:** Policymakers should encourage coal companies to invest part of their windfall in diversifying into renewable energy and alternative energy exports, such as LNG or hydrogen. This strategy can help coal-dependent economies gradually shift towards sustainable energy production while maintaining economic stability.
- **Strengthen Domestic Energy Security and Price Stabilization Policies:** Utilizing the windfall to enhance domestic energy infrastructure can help ensure a stable energy supply at more consistent prices, reducing dependence on volatile global markets and improving national energy security.

5.4 Recommendations for Future Research

Broaden Variable Inclusion: Future studies should incorporate additional macroeconomic variables, such as inflation rates and interest rates, to provide a more comprehensive analysis of factors affecting stock returns. Future research can build upon the current study's findings and contribute to a more robust understanding of the determinants of stock returns in the coal industry.

1. Expand Geographical Scope: Analysing coal companies in other regions or countries can offer comparative insights and enhance the generalizability of findings. Analyse coal companies in different regions or countries. Example: Coal Company in Africa and South America
2. Examine Other Geopolitical Events: Investigating the impact of different geopolitical events on stock returns can deepen the understanding of external risks affecting the coal sector. Investigate the impact of various geopolitical events on stock returns. Example: Israel –Palestine War, or South China Sea Tension Issue
3. Examine other Commodities other than coal : Example : Oil & Gas Company, Power Plant Company, Mineral Company , to provide dynamic view of stock performance other than coal company
4. Longitudinal Studies: Conducting studies over extended periods can help identify long-term trends and the enduring effects of macroeconomic and geopolitical factors on stock returns.
5. Broaden variable inclusion Include additional macroeconomic variables like inflation and interest rates to provide a more comprehensive analysis of factors affecting stock returns.