

4.0 RESEARCH RESULTS

In order to understand the relationship between stock returns with the independent variables, correlation coefficient test was performed on the data. The result of the test (Table 4.1) shows that all variables have a positive correlation (r-value) with stock returns. The coefficient of 0.184 for EVA indicates a weak positive correlation with stock returns.

Despite the above, EVA exhibited the highest degree of correlation with stock returns (Refer table 4.1 below) compared with the other variables. Price-earnings (PE) ratio had the highest correlation among the accounting variables.

Table 4.1: Results of Correlation Coefficient Test

Variables	1.	2.	3.	4.	5.	6.
1. Stock Returns	1.0000					
2. EVA	.184**	1.000				
Sig. (2-tailed)	.005					
3. P/E Ratio	.137*	.092	1.000			
Sig. (2-tailed)	.039	.168				
4. EPS	.068	.222**	.012	1.000		
Sig. (2-tailed)	.303	.001	.853			
5. ROE	.052	.273**	.073	.199**	1.000	
Sig. (2-tailed)	.437	.000	.272	.002		
6. ROTA	.082	.379**	.044	.257**	-.018	1.000
Sig. (2-tailed)	.220	.000	.504	.000	.788	

Note:

* - Correlation is significant at the 0.05 level (2-tailed);

** - Correlation is significant at the 0.01 level (2-tailed);

Regression analysis was used to compare the explanatory ability of the independent variables using a linear model. The t Test indicates that the independent variables PE ratio and EVA were statistically significant. F statistic also confirms the results of the t Test. Like the correlation test above, EVA exhibited the highest predictive ability with a coefficient of determination (R^2) of 3.4% (Table 4.2). Price-earnings ratio was once again the best accounting measure with the ability to explain 1.9% of stock returns. The results show that EVA is superior in explaining stock returns. Although the EVA and PE ratio regressions were significant, the predictive ability of the regression were low.

Table 4.2: Summary of Individual Regression with Stock Returns

Independent Variables	EVA	PE Ratio	EPS	ROE	ROTA
Constant	.171	7.400E-02	9.802E-02	.109	.102
Sig. – constant	.003**	.175	.067	.042*	.053
Independent Variable (IV)	1983E-06	8.194E-04	2.476E-02	3.155E-04	1.038E-03
Sig. – IV	.005**	.039*	.303	.437	.220
R^2 (%)	3.4%	1.9%	0.5%	0.3%	0.7%
F Statistic	7.898	4.328	1.064	.605	1.516
Sig. – F Statistic	.005**	.039*	.303	.437	.220

Note:

* - Correlation is significant at the 0.05 level (2-tailed);

** - Correlation is significant at the 0.01 level (2-tailed);