

THE EFFECT OF RETURN ON ASSET, RETURN ON EQUITY AND EARNING PER SHARE ON STOCK PRICES IN BANKING COMPANIES (Case Studies on the Indonesia Stock Exchange)

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Submission date: 21-Sep-2022 11:45PM (UTC+0900)

Submission ID: 1904087935

File name: RAMA_62301_1815644021_artikel.docx (61.88K)

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The Effect Of Return On Asset, Return On Equity And Earnings Per Share On Stock Prices In Banking Companies

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Abstract: The share price is the closing price of the stock market during the observation period that will be used as an investment target by investors. The share price will be formed through the supply and demand process that occurs in the capital market. There are several factors that can affect the stock price, including ROA, ROE, and EPS. This study aims to examine the effect of ROA, ROE, and EPS on stock prices (Case Study on the Indonesia Stock Exchange). This study analyzes secondary data sourced from the financial statements of banking sector companies listed on the Indonesia Stock Exchange. Testing of research variables was carried out using the SPSS Version 26.00 application. The results showed that ROA was partially positive, a significant effect on stock prices. ROE has a positive and significant effect in part on the stock price. EPS is partly positive, has a significant effect on stock prices and ROA, ROE, and EPS while having a positive and significant effect on stock prices.

Keywords: ROA, ROE, EPS and Stock Price

Introduction

The existence of Covid-19 has a negative impact on the economy, especially for companies that are listed on the stock exchange. The decline in the JCI due to panic selling caused the stock market to experience an oversupply which caused the JCI to plummet. This decrease was influenced by the increased risk of bad debts because bank debtors, especially small and medium-sized businesses, had difficulty paying loan installments due to the impact of the COVID-19 pandemic. Before Covid-19, the trading volume was Rp. 6,731.93 million with an average trade of Rp. 6,587.67 billion in February. However, in January 2020 the stock trading volume was at the level of Rp. 8,250.82 million with an average stock trading volume of Rp. 6,397.29 billion. Judging from the fact that in investing stocks have various fluctuations, that is, they can change prices starting from hours, minutes and even changing every second. Then investors need to have a strategy, analysis and consideration by collecting types of information related to stock price dynamics so that they can make decisions accurately.

Therefore, investors in buying shares can pay attention to the ratios in the financial statements, ratios are tools that can help investors to analyze financial statements so that they can measure the strengths and weaknesses of the company. There are three ratios that are common and effective for investors to use to see the condition of the company as well as the company's ability to generate profits, namely Return on Asset (ROA), Return on Equity (ROE), and Earning Per Share (EPS). Based on previous research conducted by Egam et al. (2017) that ROA, ROE, NPM and EPS affect stock indices listed on the LQ45 index, where EPS has a positive effect on the price of stocks listed on the LQ45 index. Furthermore, based on research conducted by Rahmadewi (2018) in his research EPS is said to simultaneously have a negative effect on stock prices. Then the results of the research conducted by Chalik (2021) ROE, EPS, PER and DPS have a significant effect on stock prices, while the ROA variable negatively affects stock prices. Then on the ROE variable based on Ratih's research. D et al. (2013) stated that ROE significantly affects the price of companies in the mining sector while research conducted by Utami and Darmawan (2018) states that ROE partially has no effect on stock prices on the Indonesian Sharia stock index.

According to the problems found and inconsistent findings from previous studies. So that this research is carried out further which is expected to help contribute ideas that are relied on to help smooth the business activities of banking companies and as a consideration in knowing the influence of ROA, ROE and EPS on Stock Prices in Banking Companies (Case Study on the Indonesia Stock Exchange).

Method

This research uses descriptive research with a quantitative approach. Descriptive quantitative approach analysis is an analytical technique that uses numbers in calculations that have certain units and can be calculated. The population in this study was banking companies listed on the Indonesia Stock Exchange (IDX) during 2019-2021 with a research time of February to July 2022, a total of 47 companies. Based on this, the sampling in this study used purposive sampling techniques, the sample used was the banking financial statements for the 2019-2021 period. There are 4 companies that are not listed on the IDX for the 2019-2021 period in a row. So that the resulting research sample is 43 x 3 years, which is 129 research data. This study used independent variables and dependent variables. The independent variables used in this study consisted of Return on Assets (X1), Return on Equity (X2), Earnings Per Share (X3). Then for the dependent variable is the Stock Price (Y). In this study using multiple linear regression analysis techniques with SPSS version 25. The tests carried out in this study are: 1) Descriptive statistical Test, 2) Classical assumption test, 3) Multiple linear analysis test, 3) Coefficient of determination (r²), 4) F test and 5) T test.

Results and Discussion

Results

Descriptive Statistics

Table 1. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA (%)	129	-0,6009	3,7403	0,1321	0,1129
ROE (%)	129	-1,2392	18,6758	0,6553	0,5317
EPS (%)	129	-133,8974	1101,0788	96,4544	9,6402
Harga Saham Valid	129	50	33850	2339,83	1690,835
N (listwise)					

Source: Secondary data processed, 2022

In the ROA variable (X1), the average value is greater than the standard value, so the data deviation that occurs is low, so the distribution of values is evenly distributed. Furthermore, for the ROE (X2) variable, the average value is greater than the standard value, so the data deviation that occurs is low, so the distribution of values is evenly distributed. And finally in the EPS variable (X3) the average value is greater than the standard value so that the data deviation that occurs is low, the distribution of values is evenly distributed. For the stock price variable (Y) the average value is greater than the standard value so that the data deviation that occurs is low, the distribution of values is evenly distributed.

Test of Classical Assumptions

The Classical Assumption Test has been carried out with the results of an overall test that is free of interference as follows:

1. In the normality test the value of $asimp$. The remaining Sig (2-tails) of 0.200 is greater than the significance limit of the Kolmogorov-Smirnov Test, which is 0.05, so it can be said that the variables in this study are usually distributed.
2. The results of the multicollinearity test stated that the independent variable had a VIF value of less than 10 and a tolerance value of more than 0.1, so all independent variables in this study were free of symptoms of multicollinearity.
3. The results of the autocorrelation test stated that the regression model of this study was free from autocorrelation disorders. Judging from the test, the DW value of 1.854 is above the limit (du) and below the value of $4-du$.
4. The results of the heteroskedasticity test stated that all independent variables in this study did not have symptoms of heteroskedasticity, judging from the significance values of the ROA, ROE, and EPS variables greater than the absolute value of residual significance, which is 5%.

Multiple Linear Regression**Table 2. Multiple Linear Regression Analysis Results**
Coefficients^a

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients		
1 (Constant)	0,379	0,110		3,433	0,001
ROA (%)	0,508	0,070	0,370	7,225	0,000
ROE (%)	0,147	0,041	0,179	3,635	0,000
EPS (%)	0,643	0,070	0,492	9,190	0,000

a. Dependent Variable: Harga Saham

The obtained multiple linear regression equation is: $Y = + b_1x_1 + b_2x_2 + b_3x_3 + e$ or $Y = 0.379 + 0.508x_1 + 0.147x_2 + 0.643x_3 + e$. Based on the equation, providing information that ROA (X1), ROE (X2) and EPS (X3) are 0 percent or have not changed, the value of the stock price variable (Y) is 0.379. Then, the value of the regression coefficient for the ROA variable (X1) is 0.508. This value indicates a positive influence between the variables ROA (X1) and stock price (Y). Further, the value of the regression coefficient for the ROE variable (X2) is 0.147. This value indicates a positive influence between the variables ROE (X2) and the stock price (Y). The value of the regression coefficient for the EPS variable (X3) is 0.643. This value indicates a positive influence between the variables EPS (X3) and the stock price (Y).

t Test Result**Table 3. t Test Results**
Coefficients^a

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients		
1 (Constant)	0,379	0,110		3,433	0,001
ROA (%)	0,508	0,070	0,370	7,225	0,000
ROE (%)	0,147	0,041	0,179	3,635	0,000
EPS (%)	0,643	0,070	0,492	9,190	0,000

a. Dependent Variable: Harga Saham

According to table 3, the aforementioned SPSS test results reveal independent variable ROA (X1), ROE (X2), and EPS (X3) have a significant impact on the Stock Price dependent variable, with significance values all less than a significance level of 0.05. According to the findings of the t-test, hypotheses 1, 2, 3, and 4 are all acceptable because all independent factors significantly and positively affect the dependent variables.

Statistic F (Simultaneous) Test**Table 4. F Test Statistical Analysis Results**
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	622,923	3	207,641	187,986	0,000 ^b
	Residual	138,069	125	1,105		
	Total	760,992	128			

a. Dependent Variable: Harga Saham

b. Predictors: (Constant), EPS, ROE, ROA

Based on Table 4, it shows that the F-value of the calculation = 187.986 the value of $F_{table} = 2.68$, and the value of the sig level value is 0.000. This means that the proposed hypothesis is acceptable, therefore the value of $F_{count} = 187.986 > F_{table} = 2.68$ and the sig value of $0.000 < 0.05$. So, it can be concluded that ROA, ROE, and EPS have a positive and significant effect on the stock price (Y).

Coefficient of Determination Test (R^2)

Table 5. Coefficient of Determination Test Result
Model Summary^b

Model	R	R Square	Adjusted Square	R Std. Error of Estimate	of the Durbin-Watson
1	0,905 ^a	0,819	0,814	1,05098	1,854

a. Predictors: (Constant), EPS, ROE, ROA

b. Dependent Variable: Harga Saham

Based on Table 5 it is obtained that the magnitude of the *Adjusted R Square* value is 0.814. So the magnitude of the coefficient of determination is 81.4% this means that the amount of contribution/contribution between ROA (X1), ROE (X2) and EPS (X3) to the share price (Y) is 81.4%. While the remaining 18.6% was influenced by other factors that in this study were not discussed.

Discussion

Effect of ROA on Stock Price

Based on the test results, the coefficient t1-count = 7.225 > t-table = 1.657, the value of the regression coefficient of 0.508 is positive and the value of the sig. of 0.000 < (0.05), meaning that the hypothesis proposed is accepted, so that ROA (X1) has a positive and significant effect on the stock price (Y). This means that if the ROA rises, it will increase the stock price, because the ROA can describe the returns generated by the company.

Effect of ROE on Stock Price

Based on the test results, the coefficient of t2-count = 3.635 > t-table = 1.657, the value of the regression coefficient of 0.147 is positive and the value of the sig. of 0.000 < (0.05), meaning that the proposed hypothesis is accepted, so that ROE (X2) has a positive and significant effect on the stock price (Y). The increase in ROE to the stock price is influenced by investors who invest, because investors see the company's credibility track record from year to year.

Effect of EPS on Stock Price

Based on the test results, the coefficient of t3-count = 9.190 > t-table = 1.657, the value of the regression coefficient of 0.643 is positive and the value of the sig. of 0.000 < (0.05), meaning that the proposed H3 hypothesis is accepted, so EPS (X3) has a positive and significant effect on the stock price (Y). That is if EPS rises it will raise the share price because the company generates high profits per share that can be reinvested or can be distributed to investors in the form of dividends.

Effect of ROA, ROE, and EPS simultaneously on Stock Price

Based on the test results obtained the coefficient value of F-count = 187.986 > F-table = 2.68 and the value of sig. of 0.000 < (0.05), meaning that the proposed H4 hypothesis is accepted, so that ROA (X1), ROE (X2) and EPS (X3) have a simultaneously positive and significant effect on the stock price (Y). Then the coefficient of determination (R^2) produces an Adjusted R Square value of 81.4%, which means that 81.4% of the independent variable can affect the dependent variable, while 18.6% cannot be explained by the researcher's variable. That is, if ROA, ROE, and EPS rise, it will increase the stock price, and vice versa if ROA, ROE, and EPS fall, it will reduce the stock price.

Conclusion

Based on the description that has been submitted to the research data collected and then processed regarding the results of the influence of ROA, ROE, and EPS on stock prices in the banking sector listed on the Indonesia Stock Exchange, several conclusions can be drawn as follows: ROA has a positive and partly significant effect on stock prices in the banking sector listed on the Indonesia Stock Exchange, ROE has a positive and partly significant effect on the share price in the banking sector listed on the Indonesia Stock Exchange, EPS has a positive and significant effect that is partly significant on the share price in the banking sector listed on the Indonesia Stock Exchange. The profitability of ROA, ROE, and EPS has a simultaneous positive and significant effect on the share price in the banking sector listed on the Indonesia Stock Exchange. Then the implications on

this study are 1) The use of classical assumption tests in testing sample data, has provided sufficient information on the results obtained that the data that has been tested can be said to be normal. 2) Looking at the results of the tests that have been carried out, it proves that even though companies that have been listed on the Indonesia Stock Exchange have not escaped the role of ROA, ROE, and EPS in measuring stock prices.

Acknowledgment

The author would like to thank all the leaders of the Bali State Polytechnic and the author would like to take this opportunity to convey sincere gratitude to my family, friends and to everyone who has contributed and supported in completing this article.

Prep. (ETS)

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