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Return On Equity, Net Profit Margin, Earning Per Share, and Stock Price

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***Abstract* - This study aims to determine the effect of return on equity, net profit margin and earnings per share on stock prices by banking companies listed on the Indonesia Stock Exchange. The population of this study are banking companies listed on the Indonesia Stock Exchange during the pandemic period, 2020-2021. The sample was determined based on the purposive sampling of as many as 105 companies. The results show that return on equity has a positive effect on the stock price of banking companies, net profit margin affects the stock price of banking companies, earnings per share has a positive impact on the stock price of banking companies.**

Keywords - *Return On Equity, Net Profit Margin, Earning Per Share, Stock Price.*

I. INTRODUCTION

Recently, we have been shocked by the Covid-19 or Coronavarius disease phenomenon, which is spreading so fast. The Indonesian government announced the first positive case of Covid-19 on March 2, 2020. At the same time, the JCI position declined to the level of 5,361 points [1]. According to the International Monetary Fund, the impact of the Covid-19 pandemic is feared to cause a recession, stating that the economic crisis that occurred as a result of the Covid-19 pandemic will be more severe than during the financial crisis in 1998 [2].

In 2020, the Central Statistics Agency (BPS) Survey noted that 82.85% of companies from 34,559 business actors such as tourism, manufacturing, agriculture, mining, real estate, and banking were affected by the Covid-19 pandemic[3]. Banking is a financial institution whose activities are to collect funds from the public and channel them back to the community in the form of funding and provide other transaction services[4]. Indonesia has state banks, private banks, Islamic banks and foreign banks[5]. This pandemic is feared to have the potential to cause bank panics (massive cash withdrawals) that trigger problems in the real sector or the business world. The banking sector is an intermediary or intermediary institution for public funding needs and investment funds for the business world [6]. Banks are one of the industries affected by the Covid-19 pandemic so that the ability of banks to print profits has decreased. OJK stated that this pandemic risks suppressing the profitability of bank[7].

Credit or bank financing income decreased by 7% to 10%, with the most significant decrease in micro customers, which fell to 19%, which will affect the profitability obtained by the Bank[8]. This condition is reflected in the profit of four state-owned banks, which fell to double digits compared to the same year last year. In the first quarter of 2020, the position of PT Bank Mandiri fell by Rp. 10.29 trillion, which in 2019 was in the first quarter of Rp. 13.53 trillion. For PT Bank BTN, the profit for the first quarter of 2019 was IDR 1.3 trillion, a decrease in the first quarter of 2020 of IDR 457 billion. PT Bank BRI experienced a similar condition, which recorded a net profit of IDR 10.2 trillion in the first quarter of 2020 from the same position last year in the first quarter of IDR 16.16 trillion. While the sharpest decline was recorded by PT Bank BNI, in the first quarter of 2020, it decreased by Rp. 4.46 trillion, which in 2019 was in the first quarter of Rp. 7.63 trillion[9]. That was followed by a decline in profits by private banking companies, one of which was PT Bank Permata Tbk with the issuer code BNLI recording a 51.9% decrease in profit throughout 2020 of IDR 721.58 billion, a reduction compared to 2019, which was IDR 1.5 trillion[10].

World capital markets are also feeling the impact of this pandemic. Nikkei market price movements are experiencing stock price fluctuations, the majority of which have been downtrends since the Covid-19 outbreak [11]. The current pandemic has caused the capital market to turn negative due to low investor assessments (Nasution et al., 2020). As a result of the capital market turning negative, it will impact investors' decisions to invest, which ultimately weakens the global stock market[12]. Performance evaluations in companies can be carried out using an analysis of the company's financial statements to help improve the company's performance in the future[13].

Return On Equity (ROE) is a ratio used to measure the level of success of a company in creating profits for shareholders, and ROE is considered to represent shareholder wealth or company value (Hery, 2015:230). This ratio explains to find out and measure how much the rate of return on capital invested in shares in the company through the amount of income or profit generated by the company[14].

Return on capital to measure the company's ability to earn profits available to shareholders. Net Profit Margin or net profit margin is a measure of profit by comparing profit after interest and taxes compared to sales [15]. This ratio explains the company's level of efficiency, namely the extent to which the company's ability to reduce its operational costs within a certain period[16]

Earnings per share or earnings per share is a profit from each share owned by shareholders [17]. This ratio explains how much profit per share investors have when investing in a company. EPS affects the movement of stock prices. If the EPS value is high, many investors will want to buy the company's shares. The stock price describes the value of a company[18].

The share price is the value of a book in a financial instrument for the ownership of a company in the capital market [19]. The stock price in the capital market consists of three categories, namely the highest price (high price), the lowest price (low price) and the closing price (closing price). The highest or lowest price is the highest or lowest price that occurs on one trading day. , the closing price is the last price at the end of trading hours (Egam et al., 2017). Analysis in assessing stock prices can be through a company's fundamental analysis through analysis of financial ratios and technical analysis by looking at stock price movements (Wangarry et al., 2016).

Various previous studies raise the discussion regarding the influence of multiple factors on the company's stock price, which uses a variety of dependent variables and independent variables. For example, in their research (Hongkong, 2017), (Nainggolan, 2019), (Pointer & Khai, 2019) and Choiriyah (2020) explain that ROE has a significant influence on stock prices. However, it is different from the research results (Fadila & Saifi, 2018) and (Al Umar & Savitri, 2020), which explain that ROE is a variable that has no significant effect on stock prices. (Fadila & Saifi, 2018) and (Nainggolan 2019) clarify that NPM substantially influences stock prices. However, the research conducted (Choiriyah, 2020) shows that NPM has no significant effect on stock prices. In addition, research (Hongkong, 2017) (Nainggolan, 2019) and (Al Umar & Savitri, 2020) explain that EPS has a significant effect on stock prices.

II. THEORETICAL FRAMEWORK

Agency theory explains the relationship between company owners and management. According to (Jensen & Meckling, 1976), "Agency relationship is a contractual relationship in which the shareholder referred to as the principal asks management as the company's agent to take action in every activity of the company on behalf of the principal". In the signalling theory (Signaling Theory), there is a theory based on how the signals affect the rise and fall of stock prices in the capital market. The signal theory relies on investors' sensitivity to properly digest whether the information gives a positive or negative signal to their investment (Sari et al., 2017).

The Effect of Return On Equity (ROE) on Stock Prices

(Sanjaya, 2015) say that ROE is the essential ratio because investors certainly want a significant return from the funds that have been invested. ROE here can show what level they are getting. The higher the company's ability to generate profits, makes investors attractive. The higher the stock of the company. Research (Hongkong, 2017) entitled "The Effect Of Earning Per Share And Return On Equity On Stock Price (Study On Listed Banks)" states that partially ROE has a negative and significant effect on stock prices. His research shows that the higher the ROE, the higher the stock price. Research (Kumaidi, 2017) in his study states that ROE affects stock prices. Research (Vireyto & Sulasmiyati, 2017) also supports this study, saying that ROE has a negative and significant effect on stock prices. However, it is different from the results of research by (Yudistira & Adiputra, 2020), which states that ROE has no impact on stock prices.

Effect of Net Profit Margin (NPM) on Stock Prices

(Anggraini & Lestariningsih, 2019) Their research explains that NPM is the ratio between net profit, sales after deducting all expenses, including taxes and sales. The higher the net profit margin indicates, the higher the net profit generated from the company's net sales. Choiriyah's research (2020) shows that partially NPM does not significantly affect stock prices and is supported by research (Anggrakusuma, 2018) which states that NPM does not affect stock prices. However, it is different from the results of research (Fitriana & Herfianti, 2021), which says that NPM has a significant influence on stock prices.

Effect of Earning per share (EPS) on Stock Price

(Widasari & Faridoh, 2017) their research explains that EPS is a profit the company gives to investors for each share. EPS is a share value for shareholders. Investors will see an established company through ownership of the EPS value which tends to be high. Research (Nainggolan, 2019) with the title "The Effect of EPS, ROE, NPM, DER, PER on Stock Prices in Banking Companies Listed on the Indonesia Stock Exchange in 2014-2017", in his research states that EPS has a positive and significant effect on stock prices. Supported by research (Alfiah & Lestaringsih, 2017) which says that EPS impacts stock prices. Research (Asri, 2018) also supports this study, stating that EPS has a positive and significant impact on stock prices. However, it is different from the results of research (Nafiah, 2020), which explains that EPS does not have a substantial effect on stock prices.

III. METHODE

This study is a causal associative study using secondary data from quarterly financial statements of banking companies listed on the IDX during the years 2020-2021. Twenty-one banking companies were found, so that the number of samples used in this study was 105. The analytical method used was multiple linear regression analysis and partial hypothesis testing (t-test), and simultaneous hypothesis (f test).

The population in this study were all banking companies on the Indonesia Stock Exchange, as many as 46 companies. The sample selection in this study was conducted based on the purposive sampling method. Purposive sampling is a sampling technique with specific criteria (Sugiyono, 2017). The research sample is 21 banking companies for two periods (years) of 5 quarters, so the number of models used in this study is 21 companies x (1 year x quarter + 1 quarter) = 105 observations.

The variables used in this study are two main variables, namely: the dependent variable and the independent variable. The stock price is the dependent variable. The share price is the price that occurs on the stock market at the time of closing (closing price), which market participants determine through the demand and supply of the relevant shares in the capital market. (Rahmani, 2020). The independent variables in this study consisted of Return On Equity, Net Profit Margin, and Earning Per Share.

IV. RESEARCH RESULTS AND DISCUSSION

Multiple linear regression analysis is a linear relationship between two or more independent variables consisting of Return on Equity (X1), Net Profit Margin (X2), and Earning Per Share Equity (X3) with the dependent variable in the form of Stock Price

(Y). This analysis determines the direction of the relationship between the independent variable and the dependent variable, whether each independent variable is positively or negatively related and predicts the value of the dependent variable if the value of the independent variable increases or decreases.
Statistical results show that the unstandardized coefficients beta for constants is 18,490. Unstandardized coefficients beta variable Return On Equity (X1) gives a regression coefficient value of 1 -10,432, unstandardized coefficients beta variable Net Profit Margin (X2) provides a regression with coefficient value of 1,697, and unstandardized coefficients beta variable Equity (X3) gives a regression coefficient value of 5.856
Based on the t-test (partial), for determining the value of t table, where the level of significance (α) = 0.05 (5%) and degrees of freedom (df) = (n – k) or (105 – 3 = 102) so that obtained df of 102, then the value of t table obtained is 1,659. Thus, partial testing can be carried out as follows:
a. It is known that the value of t arithmetic on the return on equity (ROE) variable is -3.648 with a significance of 0.000. This indicates that the value of t count is greater than -t table (-3.648 > -1.659) and the significance is less than 0.05 (0.000 > 0.05). Thus proving that the first hypothesis, which states that return on equity (ROE) has a significant effect on stock prices, is accepted, meaning that return on equity (ROE) has a negative and significant effect on stock prices.
b. It is known that the t-count value on the net profit margin (NPM) variable is 0.419 with a significance of 0.676. This shows that the arithmetic value is greater than t table (0.419 < 1.659) and the significance is less than 0.05 (0.767 < 0.05). Thus proving that the second hypothesis, which states that net profit margin (NPM) has a significant effect on stock prices, is rejected, meaning that net profit margin (NPM) has no significant effect on stock prices.
c. It is known that the value of t count on the earning per share (EPS) variable is 13,102 with a significance of 0,000. That shows that the t arithmetic value is smaller than the t table (13.102 < 1.659), and the importance is more than 0.05 (0.000 > 0.05). Thus it is proven that the third hypothesis, which states that earnings per share (EPS) has a significant effect on stock prices, is accepted, meaning that earnings per share (EPS) has a positive and significant impact on stock prices.

The coefficient of determination test results shows the Adjusted R Square value of 0.678. That indicates that the dependent variable of stock prices can be explained by the dependent variable Return On Equity (ROE), Net Profit Margin (NPM) and Earning Per Share (EPS) of 67.8% while of 32.2% influenced by other variables outside of this study.

V. CONCLUSION

1. Return On Equity (ROE) has a negative and significant effect on stock prices in banking companies listed on the Indonesia Stock Exchange (IDX) in the 2020-2021 Covid-19 Pandemic.
2. Net Profit Margin (NPM) has no significant effect on stock prices in banking companies listed on the Indonesia Stock Exchange (IDX) in the 2020-2021 Covid-19 Pandemic.
3. Earning Per Share (EPS) has a positive and significant effect on stock prices in banking companies listed on the Indonesia Stock Exchange (IDX) in the 2020-2021 Covid-19 Pandemic.

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