

Analysis of Effect Return on Share Price on Banking Company

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1 Analysis of Effect Return on Share Price on Banking Company

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Abstract. The current research was conducted to determine the benefits of return-ing equity, net profit margin, and revenue per share to banking sectors with bank companies having IDX account as the population during the pandemic in 2020–2021. A purposive sampling method was chosen of 105 companies. Under this study, the return on equity has a favourable influence on banking stocks, and profitability ratios have a significant impact on banking stock prices.

Keywords: Return on Investment · Profit margin · Net income · Share price

1 Introduction

Recently, we have been shocked by the Covid-19 or Coronavirus disease phenomenon, which is spreading so fast. On March 2, 2020, the Indonesian officially announced the first positive case of Covid-19. 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 expected to trigger a recession, with essential input that the economic crisis encountered by the Covid-19 pandemic will be more devastating than the 1998 economic downturn [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 that collects funds from the public and channel them back to the community through funding and other transaction services [4]. Indonesia has stated private, Islamic, 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 is an intermediary or intermediary institution for public funding needs and investment funds for the business world [6]. Banks are one among the enterprises tormented by the Covid-19 pandemic. It is therefore their ability to print profits has undermined. OJK stated that this pandemic risks suppressing banks' profitability [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

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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, PT Bank Permata Tbk. The issuer code BNLI recorded 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 [12]. As a result of the capital market turning negative, it will impact investors' investment decisions, which ultimately weakens the global stock market [13]. Performance reviews in enterprises can be carried out using financial statement analysis to help promote the company's future performance [14].

Return on equity (ROE) is one of the methods for measuring a company's success in creating profits for shareholders, and ROE is considered to represent shareholder wealth or company value [15]. This ratio defines and examines the rate of return on capital invested in the company showing the amount of income or profit generated [15].

Stock income is the advantage of every share owned by shareholders [16]. This ratio explains how much profit per share owned by investors when investing in the company. EPS affects the movement of stock prices. If the EPS value is high, investors eager to purchase business shares. The stock price represents the value of a company [17].

Numerous prior studies have raised the issue of the benefits of different factors on a company's stock price, which uses a variety of dependent variables and independent variables. For example, in their research Hongkong [18], Nainggolan [19], Pointer & Khai and Choiriyah [20] explain that ROE has a significant influence on stock prices. However, it is different from the research results Fadila & Saifi [21] and Al Umar & Savitri [22], which explain that ROE is a variable that has no significant effect on stock prices. Fadila & Saifi [21] and Nainggolan [19] clarify that NPM substantially influences stock prices. However, the research conducted Choiriyah [20] shows that NPM has no significant effect on stock prices. In addition, research Hongkong [18], Nainggolan [19] and according to Al Umar and Savitri, EPS has a major impact on stock prices.

2 Theoretical Framework

Agency theory explains the relationship between company owners and management. According to Jensen & Meckling [23], "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 [24].

2.1 The Impact of Return on Equity (ROE) on Stock Price

Sanjaya [25] 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. If a company makes profits, investors or shareholders will be more interested in participating. The higher the stock company. Research Hongkong [18] entitled "The Effect of Earning Per Share and Return 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 [26] states that ROE affects stock prices in his study. According to Vireyto and Sulasmiyati's research, ROE has a negative and considerable impact on stock prices. However, it is different from the research results by Yudistira & Adiputra [27] which states that ROE has no impact on stock prices.

2.2 Effect of Net Profit Margin (NPM) on Stock Price

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Anggraini & Lestariningsih [28] in their research on the ratio between sales to net income after deducting all costs. These costs include taxes and sales. The greater the net profit margin, the bigger the net profit derived from net sales. Choiriyah's study indicates that partially NPM has no impact on the exchange rate, which is also validated by Anggrakusuma's findings that NPM has no effect on stock prices. However, it is different from results of research conducted by Fitriano & Herfianti [29], which says that NPM has a significant influence on stock prices.

2.3 Earning Per Share (EPS) and Stock Price

Widasari & Faridoh [30] on 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 [19] with the title "The Effect of EPS, ROE, NPM, DER, PER on Stock Prices in Banking Sectors Listed on the Indonesia Stock Exchange in 2014–2017", according to his research, EPS has a favourable and considerable effect on stock prices. Research supports by Alfiah & Lestariningsih EPS impacts stock prices. Research by Asri [17] stating that EPS has a significant influence to stock prices. However, it is different from research results by Nafiah [31], which explains that EPS does not substantially affect stock prices.

3 Methods

This study uses causal associative studies with data in the form quarterly financial statements in banking companies IDX 2020–2021. Found 21 banking companies, so number samples to in this study is 105. Analytic method is a type of multiple linear regression analysis and simultaneous hypothesis (F test).

The population used is all banking companies in IDX, as many 46 companies taken through purposive sampling technique [32]. The research sample is 21 banking companies for 2 periods of 5 quarters, so models used in this study is $21 \text{ company's} \times (1 \text{ year} \times \text{quarter} + 1 \text{ quarter}) = 105 \text{ observations}$.

The variables are divided into two categories: dependent and independent variables. The stock price is the dependent variable in this study. The closing share price is the price of each share in the stock market at the time of closure (closing price). Market participants establish the price based on the demand and supply of relevant shares in the capital market [33]. While the independent variables include return on equity, net profit margin, and revenue per share.

4 Results and Discussion

To determine the correlation between the independent variables, hypothesis testing was performed consisting of return of equity (X1), net profit margin (X2), and income per stock equity (X3) with the dependent variable in the form of stock prices (Y). This analysis explains the direction of the relationship between returns of equity, net profit margin, income per stock equity, and stock prices. The variables here will be seen whether each independent variable has a positive attachment and predict the values of 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 $-10,432$, 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 t-test, when determining the value of table T, where the t-test value has a significance 0.05 (5%) and degree of freedom ($df = (n - k)$ or $(105 - 3 = 102)$) So as to obtain a DF value of 102 , the value of table obtained is 1.659 . Thus, partial testing in this study can be done as follows:

- It is known 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 ($0.000 < 0.05$). This 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.
- The t-count value on the net profit margin (NPM) variable is known to be 0.419 with a significance of 0.676 . This demonstrates that the arithmetic value is greater than the t table ($0.419 < 1.659$) and the significance is less than 0.05 ($0.676 > 0.05$).

1 As a result, the second hypothesis, that net profit margin (NPM) has a strong effect on stock prices is rejected. This is indicating that net profit margin (NPM) has no major effect on stock prices.

- It is known the value of t count on the earning per share (EPS) variable is 13,102 with a significance of 0,000. This reveals that the t arithmetic value is less than the t table value ($13.102 < 1.659$), and the importance is more than 0.05 ($0.000 > 0.05$). This it proven that hypothesis, which states that earnings per share (EPS) supports the hypothesis statement or the hypothesis is accepted, meaning that earnings per share (EPS) has a positive and significant impact stock prices.

The Adjusted R Square value of 0.678 is obtained by the coefficient of the test results. This indicates that 67.8% of the stock price may be explained by independent variables including return on equity (ROE), Net Profit Margin (NPM), and income (EPS), while 32.2% is determined by other factors.

5 Conclusion

- Returns of Equity (ROE) In this study has results with significant effects stock prices in banking sectors listed on IDX at Pandemic Covid-19 2020–2021.
- The NPM study had no substantial effect on stock prices in banking sectors listed on IDX during Covid-19 Pandemic 2020–2021.
- Income per share (EPS) study has results with positive effects stock prices in banking sectors listed on IDX at Pandemic Covid-19 2020–2021.

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