THE EFFECT OF RETURN ON ASSET (ROA), RETURN ON EQUITY (ROE), AND NET PROFIT MARGIN (NPM) ON STOCK PRICE ON FOOD AND BEVERAGES COMPANIES LISTED IN INDONESIA STOCK EXCHANGE (IDX)

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Abstract

The stock price is the price formed from the interaction of buyers and sellers of shares that motivated by corporate profits expectations. In capital market activity, the stock price is a very important factor and must be considered by investors in implementing the investment, because the stock price indicates the company value. Shares in the stock price are determined by market forces, which mean the stock price is determined by forces of demand and supply. Since the global crisis that occurred in mid-2008, only the food and beverage industry can survive, demand in this sector remains high. Food and beverage companies have the largest contribution to the Stock Exchange by 43% compared with others. The purpose of this research is to analyze the effect of Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) of the stock price and also to determine which among these variables— ROA, ROE, and NPM—has the strongest effect on stock price on food and beverages companies listed in Indonesia Stock Exchange (IDX). The methods used in this research are descriptive and verificative. The data is analyzed with multiple linear regressions on 9 companies, which are all the Food and Beverage companies listed in Indonesia Stock Exchange from 2008 to 2013. The research shows that there is a significant effect on food and beverages companies listed in Indonesia Stock Exchange (IDX) and the most dominant variable that effect is Net Profit Margin (NPM).

Keywords: ROA, ROE, NPM, Stock Price, Food and Beverages companies

Introduction

Investor require various consideration when purchasing shares, this obtained from the information about financial statements. By analyzing and reading financial statements, the information obtained used to observe company condition and performance for a certain period and useful for predict future development.

Stock price constitute important point as investor consideration. According to Saptadi (2007) stock price constitute the price formed by the interaction of seller and buyer of stock are background by expectation of company profits. The higher stock price value the better company's value and otherwise. Stock price in exchange determined by market strength, which mean the stock price depends by the strenght of demand and supply.

Since the global crisis occured in middle of 2008, the only surviving industry is food and beverage industry. The demand on the sector remains high. Food and beverage industry endure by not depending on export raw materials and using more of domestic raw materials. In addition, the community characteristics that disposed to shop for food, helping mantain food and beverage industry. The data listed in Indonesia Stock Exchange is amount to 43 percent compared to cigarettes companies is amount to 9 percent, pharmaceutical companies is amount to 28 percent, cosmetic and household goods companies is amount to 11 percent, and household appliances companies is amount to 9 percent.

According to Silaen (2011) in assesing the profitability of company Return On Assets (ROA), Return On Equity (ROE), and Net Profit Margin (NPM) constitute a profitability ratio that is sufficient to represent the other ratios is assesing company profitability, because in measuring company profitability this all three ratio has accounted equity, assets, and sales. May be indicated factors that affect stock price are company ability to generate profits.

Based on this phenomenon, the purpose of this research is to find out the extent of the influence of Return On Assets (ROA), Return On Equity (ROE), Net Profit Margin (NPM) toward stock price at food and beverage companies listed in Indonesia Stock Exchange and also which is the most dominant variable.

Literature Review

According to Sutrisno (2007:9) financial statements are : **"**Financial Statement are prepared to provide information of company's financial to stakeholders (management, owners, creditors, investors, goverments, and other parties)".

Return On Assets (ROA): According to Mardiyanto (2009:196) ROA are : "Return On Assets is ratio used to measure company's ability to generate profits from investing activities".

To measure Return On Assets (ROA) can be formulated as follows :

$$ROA = \frac{Earning\ After\ Tax}{Total\ Assets}\ x\ 100\%$$

Return On Assets indicates how much will the profit gained by using the entire assets owned by the company. According to Lestari and Sugiharto (2007:196) good rate return of Return on Assets (ROA) if > 2%.

Return on Equity (ROE): Return on Equity (ROE) according to Mardiyanto (2009:196) are: "The ratio used to measure company's success in generating profits for shareholders".

Accoding to Sutrisno (2007) to measure ROE the formulation are as follows :

$$ROE = \frac{Earning\ After\ Tax}{Total\ Equity}\ x\ 100\%$$

According to Lestari and Sugiharto (2007:196) good rate return of Return on Equity (ROE) if > 12%.

Net Profit Margin (NPM): *Net Profit Margin* (NPM) according to Sutrisno (2009:222) Net Profit Margin (NPM) are : "Profit Margin constitute company's ability to generate profits compared to sales achieved".

To measure *Net Profit Margin* according to Harahap (2007:304) are :

$$NPM = \frac{Net\ Income}{Sales}\ x\ 100\%$$

According to Sulistyanto (without year:7) good rate return of Net Profit Margin if > 5%.

Stock Price: Stock price according to Martono (2007:13) defined as follows: "Stock price constitute the reflection of investment decisions, financing (include dividend policy) and assets management".

Method

Variables used in this research grouped into two, namely dependent variable (stock price retrieved from IDX period of 2008 – 2012) and independent variable namely variables who allegedly be freely affect to company stock price (X_1 = Return on Assets, X_2 = Return on Equity, X_3 = Net Profit Margin).

Research methods used in this research are descriptive and verificative method. Analysis of data using multiple linear regression to see the strength effect of independent variable on the dependent variable from the determinant coefficient indicated by the R square that shows how far the independent variable can explain the dependent variable. Population in this research are food and beverages companies listed in Indonesia Stock Exchange (IDX)

period of 2008 – 2012 which total 9 companies. Sampling technique using purposive sampling. As for the criteria used are as follows :

1.	Determine the company used in this research are companies that included in the category of food and beverages listed in Indonesia Stock Exchange (IDX).

2.	Determine the total of food and beverages company listed in Indonesia Stock Exchange (IDX) period of 2008 – 2012.

3.	Company listed in Indonesia Stock Exchange till the date of December 31, 2013 and publish annual financial statements till the date of September 30, 2012.

4.	Completeness of company financial datas in the year of 2008 – 2012.

5.	PT. Multi Bintang Indonesia, Tbk (MLBI) excluded from research object due to very high value of ROA, ROE, NPM, and stock price and different from other objects with the result that imbalance of analysis data result.

6.	PT. Akasha Wira International, Tbk., PT. Davomas Abadi, Tbk excluded from research object due to negative value of ROA, ROE, and NPM with the result that affects the analysis data result.

7.	PT. Tunas Baru Lampung, Tbk excluded from research object due to incomplete data.

The following are companies which becomes sample of research object on research :

Table 1

Companies of Research Object Sample

No	Companies Names
1	PT. Sinar Mas Agro Resources and Technology, Tbk.
2	PT. Fast Food Indonesia, Tbk.
3	PT. Sekar Laut, Tbk.
4	PT. Pioneerindo Gourmet International, Tbk.
5	PT. Indofood Sukses Makmur, Tbk.
6	PT. Prasidha Aneka Niaga, Tbk.
7	PT. Cahaya Kalbar, Tbk.
8	PT. Siantar Top, Tbk.
9	PT. Tiga Pilar Sejahtera, Tbk.

Result and Discussion.

Based on the analysis result that has been done on independent variable namely *Return on Assets* (ROA), *Return on Equity* (ROE), *Profit Margin* (NPM), simoultaneously and partially towards stock price using SPSS, then obtained discussion as follows :

   a.   The result of determinant coefficient indicate adjusted R^2 value is 0.305, this means 30.5% variability of stock price variable can be explained by other variability of ROA, ROE, and NPM variables. While the rest 69.5% explained by other variables which not included in this regression model. Regression equation obtained is **Y = 4.548 + 0.768 X₁ – 0.318 X₂ + 0.970 X₃ + e**. Based on that result, explain that :

    1. Constants in the amount of 4.548 means if all independent variable (ROA, ROE, NPM) considered constants (0 valued) and not changing, then the stock price value in the amount of 4.548.

    2. *Return on Assets* (ROA) variable has positive value of multiple regression coefficient in amount of 0.768 which means if the others value of regression coefficient still, then changes in ROA in amount of one unit will increase stock price value in amount of 0.768 unit.

    3. *Return on Equity* (ROE) has negative value of multiple regression coefficient in amount of -0.318 which means if the others value of regression coefficient still, then changes in ROE in amount of one unit will decrease stock price value in amount of -0.318 unit.

    4. *Net Profit Margin* (NPM) has positive value of multiple regression coefficient in amount of 0.970 which means if the others value of regression coefficient still, then changes in NPM in amount of one unit will increase stock price value in amount of 0.970 unit.

    5. ROA (X_1), ROE (X_2), NPM (X_3) variables, simultaneously has effect on stock price of food and beverages company. This proved by F test obtained value of F statistic larger than F table ($8.901 > 2.83$), otherwise it obtained significant value in amount of 0.000. If significant compared with $\alpha = 0,05$ then significant smaller than $\alpha = 0,05$

   b.   The effect of ROA (X_1) variable on stock price

   Based on the result of multiple linier regression analysis obtained ROA variable has regression coefficient which indicate that if there is an increase 1 time on X_1 variable and other variables considered still or zero valued, then will occur an increase of Y variable in amount of 0.956. From T-test obtained result that independent ROA variable affect significantly toward stock price. That can be known

from T-test statistic in amount of 3.424 with significant in amount of 0.001. Statistic value of T-test is larger than T table (3.424 > 2.019) and significant value is smaller than $\alpha = 0.05$. Further it can be seen from adjusted R^2 in amount of 19.6% on the basis of population parameter, while the rest 80.4% constitute other factor outside ROA. The result of regression analysis indicate that ROA constitute one of factor that can increase stock price. This happen if the use and management of company's assets are optimal with the result that increase company profitability and stock price.

c.   The effect of ROE (X_2) on stock price

Based on the result of multiple linier regression analysis obtained ROE variable has regression coefficient whih indicate that if there is an increase 1 time on X_2 variable and other variables considered still or zero valued, then will occur an increase of Y variable in amount of 0.518. From T-test obtained result that independent ROE variable affect significantly toward stock price. That can be known from T-test statistic in amount of 2.054 with significant in amount of 0.046. Statistic value of T-test is larger than T table (2.054 > 2.019) and significant value is smaller than $\alpha = 0.05$. Further, it can be seen from adjusted R^2 in amount of 6.8% on the basis of population parameter, while the rest 93.2% constitute other factor outside ROE. The result of regression analysis indicate that ROE constitute one of factor that can increase stock price. This happen if company able to generate profits with owner investment.

d.   The effect of NPM (X_3) variable on stock price

Based on the result of multiple linier regression analysis obtained NPM variable has regression coefficient which indicate that if there is an increase 1 time on X_3 variable and other variables considered still or zero valued, then will occur an increase of Y variable in amount of 1.253. From T-test obtained result that independent NPM variable affect significantly toward stock price. That can be known from T-test statistic in amount of 4.894 with significant in amount of 0.000. Statistic value of T-test is larger than T table (4.894 > 2.019) and significant value is smaller than $\alpha = 0.05$. Further it can be seen from adjusted R^2 in amount of 34.3% on the basis of population parameter, while the rest 65.7% constitute other factor outside NPM. The result of regression analysis indicate that NPM consitute one of factor that can increase stock price. This states that investor calculate NPM variable in investing to predict stock price.

e.   Dominant variable on Stock Price

From the regression result above it can be seen on Standardized Coefficient, known that regression coefficient value of each independent variable partially which reflects the level of effect or contribution toward dependent variable. Beta coefficient value of ROA (X_1) variable in amount of 0.463, ROE (X_2) variable in amount of

0.229, NPM (X_3) variable in amount of 0.598. Based on T-test of all variables partially significantly influential toward stock price. In determining independent variable dominantinfluential toward dependent variable then can be seen the beta standard value. The calculation result indicate that beta value of NPM variable in amount of 0.598 with adjusted R^2 value in amount of 34.3%. Thereby NPM determined as independent variable partially dominant influential on stock price. Dominant effect of NPM on stock price indicates high rate return issuers obtained cause increase of stock price.

Conclusion

Based on the research result that has been done about the effect of ROA, ROE, and NPM toward stock price on food and beverages companies listed in Indonesia Stock Exchange it can be concluded as follows :

1. From the simoultaneous test with F-test it can be concluded that company financial performances measured from ROA, ROE, and NPM effect on stock price.

2. From the partial test with T-test it can be concluded that all ROA, ROE, and NPM variable partially effect on stock price. Further from T-test obtained result that NPM (X_3) has dominant effect on stock price on food and beverages companies.

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