Influence of Return on Equity, Debt to Equity Ratio, Earning Per Share, and Net Profit Margin on Stock Price”

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Abstract

The purpose of this study is to analyze the effect of Return On Equity (ROE), Debt to Equity Ratio (DER), Earning Per Share (EPS), and Net Profit Margin (NPM) on stock prices. Empirical Studies on real estate and property listed on the Indonesia Stock Exchange (IDX). The research time period used is 4 years, namely the 2015–2018 period. The population of this study includes all real estate and property companies listed on the Indonesia Stock Exchange (IDX) for the 2015–2018 period. The sampling technique used purposive sampling technique. Based on the predetermined criteria obtained 15 companies. The type of data used is secondary data obtained from the Indonesia Stock Exchange website. The analytical method used is panel data regression analysis which is processed with Eviews 9.0. The results of the partial test of the study show that Return On Equity (ROE) has a significant positive effect on stock price, Debt to Equity Ratio (DER), Earning Per Share (EPS), and Net Profit Margin (NPM) have no effect on stock prices. Then the results of the simultaneous test of the research show that there is an influence between Return On Equity (ROE), Debt To Equity Ratio (DER), Earning Per Share (EPS) and Net Profit Margin (NPM). The result of testing the coefficient of determination is 0.945425, which means that the variation of the dependent variable that can be explained by the independent variable is 0.945425 or 94.54 percent (Very Strong). While the remaining 5.46 percent is influenced by other variables not examined in this study.

Key words: stock price, return on equity (ROE), debt to equity ratio (DER), earning per share (EPS), and net profit margin (NPM).

Introduction

The capital market is one of the main drivers of the world economy, including Indonesia, through the capital market companies can obtain funds to carry out their economic activities. This is evidenced by the increasing number of companies listed on the Indonesia Stock Exchange (IDX) to sell shares to investors. The stock price is one indicator of the success of the company’s management, if the stock price of a company always increases, then investors or potential investors judge that the company is successful in managing its business. Investor confidence or potential investors are very beneficial for issuers, if the profit earned by the company is relatively high, it is likely that the dividends paid are also high. If the dividend paid is high, it will have a positive effect on the stock price and investors will be interested in buying it. As a
result, the demand for the stock price will increase, so the price will also increase. According to Halim (2005:12). On the other hand, if the stock price decreases continuously, it means that it can reduce the value of the issuer in the eyes of investors or potential investors. This study discusses the factors that affect stock prices. Reason stock prices fluctuate due to market manipulation.

Market manipulation is usually carried out by experienced investors with large capitals by using the mass media to manipulate certain conditions for their purposes, either lowering or increasing stock prices. to be used by irresponsible people. One example of the phenomenon of the success of the largest property issuers managed to improve their performance in terms of revenue and net profit. PT Pakuwon Jati Tbk (PWON) was even able to grow its net profit by 32.53% to Rp1.67 trillion from the previous Rp1.26 trillion. Not surprisingly, the growth was driven by the company’s revenue which rose 4.76% to Rp4.84 trillion from the previous position of Rp4.62 trillion. In 2016 (CNN Indonesia/Sapphire Makki)

The recent stock price failure phenomenon is the case of PT Summarecon Agung Tbk (SMRA) being the issuer with the most significant decline in net profit. It was recorded that the company’s profit fell 63.55 % from Rp.855.18 billion to Rp.311.66 billion. BNI Securities analyst Maxi Liesyaputra said that Summarecon Agung’s poor performance last year was due to the company’s interest expense which increased to Rp576.4 billion from the previous Rp486.36 billion. In 2016 (https://m.cnnindonesia.com ). The purpose of this study was to determine the effect of Return On Equity (ROE), Debt to Equity Ratio (DER), Earning Per Share (EPS), and Net Profit Margin (NPM) on stock prices.

Literature Review

Agency Theory (Agency Theory)

There are two theories that underlie this research theory, namely agency theory and signaling theory as follows: Agency theory (agency theory) was developed in the 1970s. especially in the writings of Jensen and Meckling (1976) in an article entitled "Theory of the firm: Managerial behavior, agency costs, and ownership structure". The concepts of agency theory are based on various previous theories such as the theory of the concept of transaction costs (Coase, 1937), the theory of property rights (Berle and Means, 1932), and the philosophy of utilitarianism (Ross, 1973). Agency theory was built as an effort to understand and solve problems that arise when there is incomplete information when entering into a contract (engagement).

According to Golfrey in (Hery, 2017:26) agency theory is a contractual relationship between the owner of the company (principal) and management (agent), where the owner of the company authorizes management to carry out the company’s operational activities. The owner of the company expects the management to utilize the existing resources optimally for the welfare of the principal (principal). In both the short and long term.

The agency theory relationship in this study is the emergence of stock price practices when there is a conflict of interest between the management and the owner of the funds where each party tries to achieve or maintain the level of prosperity that his expectations occur and get a good image for the company. In an agency relationship, management has information more accurate than the owner of the fund.

Signal Theory (Signaling Theory)

Signaling theory developed by (Ross, 1997), states that company executives who have better information about their company will be encouraged to convey this information to potential investors so that the company’s stock price increases. In order for the signal to be good, it must be captured by the market and perceived as good and not easily imitated by companies that have poor quality (Mengginson in Hartono, 2005).

In order for the signal to be good, it must be captured by the market and perceived as good and not easily imitated by companies that have poor quality (Mengginson in Hartono, 2005).

The relationship between signal theory in this study and stock price practices is that information published as an announcement will provide a signal for investors in making investment decisions. If the announcement takes a positive value, it is expected that the market will react when the announcement is received by the market. When the information is announced and all market participants have received the information, market participants first interpret and analyze the information as a good signal (good news) and bad signal (bad news).

Stock Price

According to Sutrisno (2008: 310), "Shares are proof of ownership of the capital portion or a sign of a statement of capital in a limited liability company that gives rights according to the size of the paid-up capital". The stock price formula used in this study is the stock price at closing (Closing Price).
Return Equity (ROE)

Return on Equity, which reflects how much return is generated for shareholders for every rupiah of money invested. The higher the ROE, the better it will be. According to Werner R. Murhadi (2013:64). The research formula uses the following.

\[
ROE = \frac{NetProfitAfterInterestandTax}{AmountofOwnCapital}
\]

Source: Tandellin, 2008:240

Debt To Equity Ratio (DER)

Debt to Equity Ratio (DER) is a comparison between loan or debt funds compared to capital in the company’s development efforts. This ratio shows the comparison between loan or debt funds and capital in the company’s development efforts. If the company’s Debt to Equity Ratio (DER) is high, there is a possibility that the company’s stock price will be low because if the company earns a profit, the company tends to use the profit to pay its debts compared to dividing dividends. According to Athanasius (2012), according to Dharmastuti (2004) in Patriawan (2004). The research formula uses the following.

\[
DER = \frac{TotalAmountofDebt}{TotalCapital}
\]


Earnings Per Share (EPS)

Earning Per Share (EPS) is a “ratio to measure the success of management in achieving profits for shareholders.” The higher the EPS value, of course, the shareholders are happy because the greater the profit provided to shareholders. The profit ratio shows the combined impact of liquidity and asset and liability management on the company’s ability to generate profits. So, it is concluded that EPS is a ratio that shows the amount of profit earned from each existing share. According to Kasmir (2012:207). The research formula uses the following.

\[
EPS = \frac{NetProfitAfterTax}{NumberofSharesOutstanding}
\]

Source: Kasmir (2012:207)

Net Profit Margin (NPM)

Net Profit Margin reflects the company’s ability to generate net profit from each sale. The higher the NPM value, the better. According to Werner R. Murhadi (2013:64). The research formula uses the following.

\[
NPM = \frac{NetProfitAfterTax}{NetSales}
\]

Object of Research

This study uses quantitative methods. Quantitative method is a method based on the philosophy of positivism which aims to describe and test hypotheses made by researchers. Quantitative research contains a lot of numbers ranging from collection, processing, and results that are dominated by numbers. According to Sugiyono (2018:15). This study also uses secondary data in the form of financial reports on the Indonesian Stock Exchange (IDX). The sample of this study was from 15 companies starting from the period 2015 to 2018 or for 4 years so that the amount of data obtained was 60 data. The population used in this study are real estate and property companies listed on the Indonesia Stock Exchange (IDX). The following is a list of the names of the companies that are the samples of this research as follows:
Table 1. List of Research Samples Real Estate and Property Sub-Sector Manufacturing Company 2015-2018 period

<table>
<thead>
<tr>
<th>NO.</th>
<th>Company Code</th>
<th>Company name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>ACST</td>
<td>PT. Asset Indonesia Tbk.</td>
</tr>
<tr>
<td>2.</td>
<td>ADHI</td>
<td>PT. Adhi Karya (Persero) Tbk.</td>
</tr>
<tr>
<td>3.</td>
<td>ASRI</td>
<td>PT. Alam Sutera Realty Tbk.</td>
</tr>
<tr>
<td>4.</td>
<td>FATHER</td>
<td>PT. Bekasi Asri Pemula Tbk.</td>
</tr>
<tr>
<td>5.</td>
<td>BSDE</td>
<td>PT. Bumi Serpong Damai Tbk.</td>
</tr>
<tr>
<td>6.</td>
<td>EMDE</td>
<td>PT. Megapolitan Development Tbk.</td>
</tr>
<tr>
<td>7.</td>
<td>GAMA</td>
<td>PT. Gading Development Tbk.</td>
</tr>
<tr>
<td>8.</td>
<td>GPRA</td>
<td>PT. Perdana Gapuraprima Tbk.</td>
</tr>
<tr>
<td>9.</td>
<td>IDPR</td>
<td>PT. Indonesia Foundation Raya Tbk.</td>
</tr>
<tr>
<td>10.</td>
<td>JKON</td>
<td>PT. Jaya Construction Manggala Prata</td>
</tr>
<tr>
<td>11.</td>
<td>LPKR</td>
<td>PT. Lipo Karawaci Tbk.</td>
</tr>
<tr>
<td>12.</td>
<td>MDLN</td>
<td>PT. Modernland Realty Tbk.</td>
</tr>
<tr>
<td>13.</td>
<td>MMLP</td>
<td>PT. Mega Manunggal Property Tbk.</td>
</tr>
<tr>
<td>14.</td>
<td>SMRA</td>
<td>PT. Summarecon Agug Tbk.</td>
</tr>
<tr>
<td>15.</td>
<td>SMOM</td>
<td>PT. Suryamas Dutamakmur Tbk.</td>
</tr>
</tbody>
</table>

Source: Indonesia Stock Exchange (2020).

Results and Discussion

By selecting the fixed effect model (FEM) as the Panel Data Regression Model, the following is a summary of the research results that have been obtained based on the panel data regression analysis.

Table 2. List of Research Samples Real Estate and Property Sub-Sector Manufacturing Company 2015-2018 period

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Value (t- Statistic)</th>
<th>Significance</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>44.95916</td>
<td>0.0000</td>
<td>–</td>
</tr>
<tr>
<td>ROE</td>
<td>2600311</td>
<td>0.0129</td>
<td>Received</td>
</tr>
<tr>
<td>DER</td>
<td>-1068207</td>
<td>0.2917</td>
<td>Rejected</td>
</tr>
<tr>
<td>EPS</td>
<td>-1340727</td>
<td>0.1874</td>
<td>Rejected</td>
</tr>
<tr>
<td>NPM</td>
<td>-0.647770</td>
<td>0.5207</td>
<td>Rejected</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.945425</td>
<td>0.000000</td>
<td>Source: Eviews 9.0 results, data processed 2020</td>
</tr>
</tbody>
</table>

Effect of Return On Equity (ROE) to Share Price

The results of the study show Return On Equity (ROE) has an effect on stock prices in manufacturing companies in the Real Estate and Property sub-sector for the 2015-2018 period. This is indicated by the t-Statistic value of 2.6003, while the t_{tablevalue} with a level of = 5%, df (nk) = 55, the t_{tablevalue} is 2.00404, and a significance value of 0.0129 which means it is smaller than 0.05. This study is able to prove that the hypothesis that states "Return on Equity" (ROE) Has a significant positive effect on stock prices", proven true (accepted).

The relationship between test results and signaling theory in this study is if Return On Equity (ROE) low shows the company’s prospects are not good. So with the Return On Equity A high (ROE) indicates a good prospect for the company so that investors will respond positively and the value of the company will increase. Therefore the stock price can increase the Return On Equity (ROE) if the gain is high.

Relationship between test results and general knowledge Return On Equity (ROE) is used to measure the ability of own capital to generate profits for all shareholders, for common stock and preferred stock. The higher the ROE value, of course, it will attract investors to invest in the company concerned because it indicates that the company has good performance and consequently the stock price will also be high. The results of this study are in line with Ratri (2011) Return on Equity (ROE) has a positive effect on stock prices, according to the opinion of Saleh (2015) Kohansal et al. (2013), Wang et al. (2013). Meanwhile, this study contradicts with Setyorini et al (2016) Return on Equity (ROE) has a negative effect on stock prices, in contrast to the opinion of Sukmawati et al (2010) Return on Equity (ROE) has no effect on stock prices.
The Effect of Debt to Equity Ratio (DER) on Stock Prices

The results of the study show that the Debt to Equity Ratio (DER) has an effect on stock prices in manufacturing companies in the Real Estate and Property sub-sector for the 2015–2018 period. This is indicated by the t-Statistic value of \(-1.0668\), while the \(t_{tablevalue}\) with a level of \(= 5\%\), \(df (nk) = 55\), the \(t_{tablevalue}\) is \(2.00404\), and the significance value is \(0.2917\) which means it is greater of \(0.05\). This study proves that the hypothesis which states "Debt to Equity Ratio (DER) has a significant effect on stock prices", is not proven. The relationship between test results and signaling theory in this study is if the Debt to Equity Ratio (DER) has a negative effect on stock prices.

The relationship between test results and general knowledge Debt to Equity Ratio (DER) is used to compare the amount of debt to equity. This ratio is often used by analysts and investors to see how much the company’s debt is compared to the equity owned by the company or shareholders. The results of this study are not in line with Pratama & Erawati (2014) showing that the debt to equity ratio has a positive influence on stock prices. While in contrast to (Dewi & Suayana, 2013) his research shows the debt to equity ratio (DER) has a negative effect on stock prices.

Effect of Earning Per Share (EPS) on Stock Price

The results show that Earning Per Share (EPS) has an effect on stock prices in manufacturing companies in the Real Estate and Property sub-sector for the 2015–2018 period. This is indicated by the t-Statistic value of \(-3.407\), while the \(t_{tablevalue}\) with a level of \(= 5\%\), \(df (nk) = 55\), the \(t_{tablevalue}\) is \(2.00404\), and the significance value is \(0.2917\) which means it is greater of \(0.05\). This study proves that the hypothesis which states "Earning Per Share (EPS) has a significant effect on stock prices", is not proven. The relationship between test results and signaling theory in this study is if Earning Per Share (EPS) is low. Therefore, the stock price can decrease if Earning Per Share (EPS) obtained is low. Relationship between test results and general knowledge Earning Per Share (EPS) is used for the ratio between net profit (net profit) after deducting all expenses including taxes compared to sales. The greater the EPS, the more productive the company’s performance will be, so that it will increase investor confidence to invest in the company. This ratio shows how big the percentage of net profit earned from each sale. The greater this ratio, the better the company’s ability to earn high profits.

The results of this study are not in line with Damayanti et al. (2014) which shows that EPS has a positive effect on stock prices. Meanwhile, according to Rahmadewi & Abundanti (2018), his research shows that EPS has a negative effect on stock prices.

Effect of Net Profit Margin (NPM) to Stock Price

The results showed that the Net Profit Margin (NPM) has an effect on stock prices in manufacturing companies in the Real Estate and Property sub-sector for the 2015–2018 period. This is indicated by the t-Statistic value of \(-0.6477\), while the \(t_{tablevalue}\) with a level of \(= 5\%\), \(df (nk) = 55\), the \(t_{tablevalue}\) is \(2.00404\), and the significance value is \(0.5207\) which means it is greater of \(0.05\). This study proves that the hypothesis which states "Net Profit Margin (NPM) has an effect on stock prices", is not proven. The relationship between test results and signaling theory in this study is if the Net Profit Margin (NPM) low shows the company’s prospects are not good. So with the Net Profit Margin (NPM) is low can give a bad signal for the market, so the negative response shown by the market. Therefore, the stock price may decrease if the Net Profit Margin (NPM) obtained is low.

Relationship between test results and general knowledge Net profit margin (NPM) is the ratio between net income after tax (net income after tax) to total sales (sales). This ratio measures the company’s ability to generate net income to the total sales achieved by the company. So the company’s financial performance in generating net income on sales is increasing, this will have an impact on increasing the income that will be received by shareholders. Increasing NPM illustrates the company’s performance is getting better and the profits earned by shareholders will also increase. The results of this study are not in line with Robert Ang (1997). According to Asyik and Sulistyo (2000), Mila Christanty (2009), and Agus Harjito and Rangga Aryayoga (2009) NPM has an effect on stock prices. In contrast to the research of Diah Prameswari (2014) which found that NPM had no effect on stock prices.

Conclusion

Based on the results of data analysis in the discussion about the effect of Return On Equity (ROE), Debt to Equity Ratio (DER), Earning Per Share (EPS), and Net Profit Margin (NPM) Real Estate and Property Sub–Sector as follows:
a. Return On Equity (ROE) has a significant positive effect on stock prices. It is evident from the value of t-statistic Return On Equity (ROE) of (2.600311) \(\geq\) t-table (2.00404) By calculating the value of Prob t-statistic 0.0129 \(\leq\) 0.05. Ha is accepted then the variable Return On Equity (ROE) has a significant positive effect on the Stock Price variable. Thus it can be concluded that H1 in the study it is accepted (proven).

b. Debt to Equity Ratio (DER) has no effect on stock prices. It is evident from the value of the t-statistic Debt To Equity Ratio (DER) of (-1.068207) \(\leq\) t Table (2.00404) By calculating the value of Prob t-statistic 0.2917 \(\geq\) 0.05. Ha is rejected, thus the variable Debt To Equity Ratio (DER) has no effect on the Stock Price variable. Thus it can be concluded that H2 in the study This is rejected (not proven).

c. Earning Per Share (EPS) does not affect the Share Price. It is proven by the t- statistic Earning Per Share (EPS) of (-1.340727) \(\leq\) t Table (0.00404) By calculating the value of Prob t-statistic 0.1874 \(\geq\) 0.05. Ha is rejected, thus the Earning Per Share variable (EPS) has no effect on the Stock Price variable. Thus it can be concluded that H3 in the study This is rejected (not proven).

d. Profit Margin (NPM) does not affect the Share Price. It is proven by the t- statistic value of Net Profit Margin (NPM) of (-0.647770) \(\leq\) t Table (0.00404) By calculating the value of Prob t-statistic 0.5207 \(\geq\) 0.05 Ha is rejected, thus the Net Profit Margin (NPM) variable has no effect on the Stock Price variable. Thus it can be concluded that H4 in the study This is rejected (not proven).

Recomendation

Based on the conclusions above, the recommendations that can be given for further research are:

a. For Investors and Potential Investors
   For investors and potential investors who want to invest their funds, they should choose a company that has a high level of profitability, so that investors can get a high rate of return in the form of dividends. In this case, investors must invest their shares in the right company. Investors are expected before choosing the shares to be purchased, first to analyze the company’s financial condition.

b. For Companies (Issuers)
   It is suggested that the company’s profitability should be increased because increasing the company’s profitability will also increase the stock price. If the stock price increases, it will attract many investors to invest in the company so that the stock price will also increase.

c. For researchers who will comematerials to conduct research in the It is recommended for researchers to conduct research in different sectors and increase the research period to obtain different and up-to-date results and conclusions in order to add insight to the researchers themselves and the readers.

References


Gateride.