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The Impact of ROA, ROE, and EPS on Indonesian Financial Sector Companies' Stock Prices

Muhammad didik Budianto[1], Indria Agustina[2], Sohibatul Ilmiyah[3], Devi Mariska[4]

[1,2,3,4] Economics Department, Faculty of Economics and Business, University of Jember, Indonesia

Abstract

The purpose of this study was to examine the effects of Return On Assets (ROA), Return On Equity (ROE) and Earnings Per Share (EPS) on the share prices of financial sector companies listed on the Indonesian Sharia Stock Index (ISSI) between 2016 and 2020. Secondary data from the annual reports of each company was utilized for this analysis. The multiple linear regression method was employed to analyze the cross-sectional data, taking into account the variables ROA, ROE, and EPS. And the study's findings after analysis reveal that none of the variables, whether they are considered separately or together, have any impact on the stock prices of financial firms that are listed on the Indonesian Sharia Stock Index (ISSI).

Keyword : EPS, ROA, ROE , Stock Price
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Introduction

Profits and financial ratios, which demonstrate a strong value and demonstrate management's management skills, may be used to determine a company's success. Shares are proof of equity participation in a limited liability company which can later benefit (Nugraha, Puspitasari, & Amalia, 2020).

Every investor carries out investment activities in companies that have the same goal, specifically to receive financial gains from the discrepancy between the price at which shares were purchased and sold. In addition, it is also expected to receive dividends in the form of company profits or profits which will be distributed to investors (Wibowo, Putra, Dewi, & Radianto, 2019). When an investor buys a stock, he should not immediately buy shares without careful calculation, consideration and understanding. If an investor buys shares without proper calculation, consideration and understanding, it is certain that the investor will experience a loss. Therefore, to avoid these losses, an investor must be able to make considerations before buying shares. There are several factors that can affect stock prices or stock returns, both macro-economic and micro-economic. Several macroeconomic factors are explained in detail in various economic variables, such as inflation, interest rates, exchange rates, growth rates, fuel prices on international markets and regional stock price indices (Pertiwi, Wardani, & Septentia, 2020).

Non-economic macroeconomic factors include domestic political events, social events, legal events and international events. The following elements, or microeconomic elements, are thoroughly detailed in a number of different variables, including profits per share, dividends, book value, equity ratio, and other financial indicators. In general, the study of the determinants of stock prices uses company fundamentals and organizational external factors. One factor that is often used in studies is earnings per share (Masoumi, Ebadi Fard Azar, RezaPour, & Mehrara, 2019).

Earnings per share (EPS) illustrates the company's ability to earn profits. EPS may be used to gauge a company's degree of corporate value as well as its success in generating profits for its shareholders. Other results explain that the most important information for investors and securities analysis is EPS. In general, EPS is considered the most important factor in determining stock prices (Choiriyah, Fatimah, Agustina, & Ulfa, 2020). In addition, there are other ways to gauge a company's worth, including ROA and ROE. Then, in order to be able to estimate the impact on stock prices, this study will employ Earnings Per Share (EPS), Return On Assets (ROA), and Return On Equity (ROE) as variables (Saputra, 2022).

Share prices are positively influenced by EPS. According to the signaling theory, a company's high EPS number might provide investors with a favourable signal. A greater company's capacity to produce EPS is indicated by a higher EPS. Investors believe capital investments to be more appealing when the EPS value is greater since EPS can explain the gains that shareholders receive from their shares (Lusiana, 2020).

The company's ability to deliver a high degree of shareholder welfare may be explained by high EPS. The first hypothesis is disproven, however, that EPS significantly reduces stock returns. EPS results have a detrimental effect on share returns. This implies that although stock returns will rise, EPS will fall. Earnings per share significantly depend on the number of outstanding shares. Because company profits are distributed among all shares issued by the company. As a result, investors assume that a high Earning per Share does not always result in better performance than other companies (Yuliandhari & Kusumawardhani, 2020).

The Indonesian Islamic Stock Index's (ISSI) stock prices are unaffected by Return On Assets (ROA). The stock price is not impacted by ROA. Unlike previous research that asserts ROA has a favourable impact on stock prices (Bustani, 2020). In light of this, past studies on the impact of EPS, ROA, and ROE on stock prices nevertheless discovered several discrepancies and generated research gaps or research gaps that require additional investigation. This study aims to examine and collect empirical evidence on the impact of fundamental variables on stock returns, including EPS, ROA, and ROE. And this research uses the Indonesian Sharia Stock Index as a research topic for 2018-2022.

Literature Review

The idea of signaling holds that the information sender has the freedom to decide what and how to convey information, and the information receiver has the freedom to decide how to interpret what they receive. By delivering consistent quality signals to the capital market, a good firm must be able to set itself apart from a bad one. Investors want to see information cues, known as signals, to help them decide whether to purchase shares of a firm (Wang, Fan, & Bae, 2019).

The foundation of signaling theory is the idea that each participant does not get the same information. According to this idea, there is asymmetry in the information that corporate management and those with an interest in the information have access to. Regulators are required to educate interested parties by publishing financial reports for this purpose. In particular, investors as users of financial statements need information to analyze the risks of each company. Signaling theory explains how to share information about management successes and failures with business owners (Tao-Schuchardt, Riar, & Kammerlander, 2023).

The rise and fall of stock prices on the capital market, which affect investment choices, may also be discussed using the signal theory. Market conditions will be impacted by investor perception of both positive and negative signals. Investors will respond in a variety of ways, such as by keeping an eye on events and waiting to decide later (Antono, Jaharadak, & Khatibi, 2019).

The concept of the efficient market hypothesis was first proposed by Fama in 1970 in relation to the stock market. It refers specifically to the capital market, where the market is considered efficient if neither individual nor institutional investors can achieve abnormal returns – that is, returns that exceed what can be expected based on the level of risk involved – through the use of a continuous trading strategy. The idea is that changes in a stock security's past price cannot be used to predict future price changes (Brown, 2020).

A stock's current price takes into account both information that is already known and information that still requires speculation. Events or events that have been announced but will still take place are also included in known information, which is divided into two categories: past information and present information (Zano, 2020).

Investment is described as an action taken by a person and/or a legal entity with the intention of boosting and sustaining the value of capital, whether that capital takes the form of money, tools, real estate, intellectual property rights, or knowledge. Investment is an investment made with the intention of creating a return in a variety of commercial industries or initiatives that need money but have a reasonably lengthy time horizon (Kartika, 2020).

Islam clearly recommends carrying out investments and circulation of funds. Basically wealth in Islam should not only be stored but must be continuously productive so that it can benefit the people and even other people. So that in making investments must be in accordance with sharia principles. Islam has provided clear guidelines and boundaries regarding which sectors are allowed and which are not allowed to invest. Even in investment there are activities that contain rewards and are worth worship if implemented according to sharia principles. The aim is to regulate and manage people from activities that are harmful to society (Putra & Solehudin, 2022).

ROA is a measure of a company's productivity that evaluates its capacity to generate profits by fully utilizing its available resources or assets, excluding capital expenditures (costs incurred to maintain assets) from the analysis. ROA calculates the ratio of net profit to expenses and reflects the company's declared rate of return on its assets (Kurniawan, 2021).

Return on investment, sometimes referred to as Return On Investment or Return On Assets, is a ratio that depicts the profitability of all the assets employed in a firm overall. The profit from the return on invested capital is also part of the survival of executives in handling their business. Meanwhile, according to Syamsuddin, return on investment (return on money invested) or often called Return On Assets (ROA) is an estimate of the overall ability of a company to create profits with the assets available in the company (Choiriyah, Fatimah, Agustina, & Ulfa, 2020).

The term "Earnings Per Share" (EPS) refers to the ratio of the number of outstanding firm shares to the amount of earnings (net income) delivered to shareholders. The most fundamental and helpful information for investors is EPS data since it may reflect the company's potential for future profits growth. An increase in EPS indicates that the business is growing or that sales and earnings are improving its financial situation. A company's share price would increase if its EPS was high because more investors would purchase and bid on its shares. The ability of a firm to produce net profits per share is also indicated by the EPS, which will have an impact on the returns received by investors in the capital market. By comparing a company's net income to the typical equity held by shareholders, return on equity may be used to determine how profitable it is (Salim & Pardiman, 2022). Economically speaking, the greater the rate of return achieved, the better a company's capacity to use its assets to generate profits will be. ROA influences share prices (Sausan, Korawijayanti, & Ciptaningtias, 2020).

H1: ROA has a positive effect on stock prices

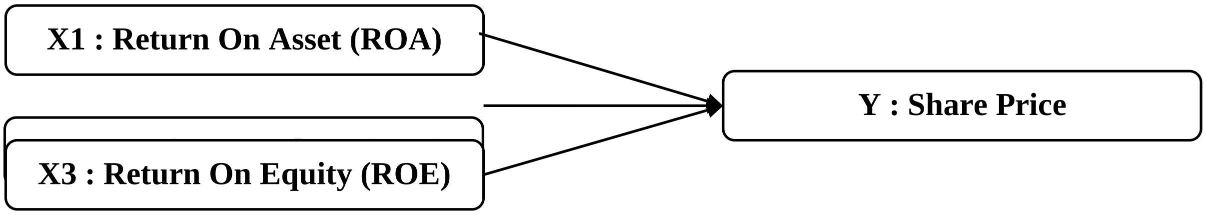
EPS measures the amount of net profit per share that a firm is able to produce when doing its business. If the company's EPS increases every year, it indicates that the company continues to develop and grow (Sausan, Korawijayanti, & Ciptaningtias, 2020). Therefore, EPS is considered by investors to be able to describe the company's profit during one financial reporting period for each share. Investors can expect higher stock returns when a company earns high profits. As per the research conducted by Bustani, Kurniaty, and Widyanti (2021), the EPS have a positive influence on the stock prices. Hence, the hypothesis for this study can be framed as follows:

H2: EPS has a positive effect on stock returns

ROE is one way to calculate a company's efficiency by comparing the profits available to the owners of their own capital with the amount of their own capital that generates these profits. ROE is the ratio used by investors to see the rate of return on the capital they invest (Handayani & Winarningsih, 2020). The greater the ROE ratio, the greater the rate of return that will be obtained by shareholders. The increase in ROE value is indicated when the net profit obtained by the company is greater and vice versa if the net profit is smaller, the ROE value is smaller. ROE is significantly impacted favorably by stock returns (Nadyayani & Suarjaya, 2021). According to the information above, the third hypothesis in this study can be identified as:

H3: ROE has a positive effect on stock prices

The study framework that follows is derived from the previous description:



Research Methods

The purpose of this study is to look at how ROA, ROE, and EPS affect the stock prices of companies in the banking industry that are listed on the Indonesian Sharia Stock Index. The secondary data utilized in this study was located in each company's annual report. Multiple Linear Regression with Panel Data is used to analyze this research, and the analysis equation is as follows:

$Y_{it}=B_{0it}+B_1X_{1it} + B_2X_{2ti}+ B_3X_{3ti} + e_{ti}$

Information:

Y = Stock Price

B0 = Constant Value

X1 = ROAl

X2i =iROE

X3i = iEPS

B= Quantity/Coefficient of Regression

i = Subject i-i

t = Year to t

e_{ti} = error

Results and Discussion

To compare or select the best regression model, the F test (the Chow test) is used with a significant threshold of 0.05, between the common effect and the fixed effect. The table below displays the results of the F test :

Table 1. Redundant Fixed EffectslTests

Effects Testl	Statistics	d.f.	Prob.l
Cross-sectioniF	0.552624	(3,13)	0.6553
Cross-sectioniChi-square	2.400564	3	0.4935

To distinguish between the models to be used for CEM and FEM can be seen the chow test in Table 1. With a prob level of 0.05 and a result value of 0.49 which is greater than 0.05 and the

CEM model is more recommended by the chow test in cases This. Then it will be continued with the LM test.

Table 2. Lagrange Multiplieri(LM) Test Forlpanel Data Mn

Null	Cross-sec.	Period	Both
Alternative	One-sided	One-sided	
Breusch-Pagan	1.133696	0.365081	1.498777
	(0.2870)	(0.5457)	(0.2209)
Honda	-1.064752	-0.604219	-1.180141
	(0.8565)	(0.7272)	(0.8810)
King-Wu	-1.064752	-0.604219	-1.200431
	(0.8565)	(0.7272)	(0.8850)
GHM	--	--	0.000000
	--	--	(0.7500)

The test results of the Common Effect Model (CEM) analysis are presented in table 3.

Table 3. Common Effect Model (CEM) analysis

Periods l included: i5				
Crossl-i sections l included: 4				
Total panel (balanced) l observations: 20				
Name	Coeff.	Std. Error	t-Stat.	Prob.
C	501.1908	269.6572	1.858622	0.0816
X1	130.0139	145.0222	0.896510	0.3833
X2	-21.93686	22.02929	-0.995804	0.3342
X3	14.80635	34.65221	0.427285	0.6749
R-squared	0.501168	Mean dependentlvar		1013.600
AdjustediR-squared	0.407637	S.D.ldependent var		1268.146
S.E. ofiregression	976.0305	Akaikelinfo criterion		16.78172
Sumlsquared resid	15242167	Schwarz criterionnm		16.98087
Log likelihoodiii	-163.8172	Hannan-Quinn criter.		16.82060
F-statisticmank	5.358301	Durbin-Watsonistat		1.334859
Probi(F-statistic)	0.009540			

In contrast to H1, which cannot be accepted, Hypothesis 1 about the impact of ROA on share prices achieves a significance level of 0.3833 > α = 0.05. As a result, H0 is accepted. This suggests that ROA has a negative impact on share prices and no meaningful impact on share prices.

With a significance threshold of 0.3342 > α = 0.05, Hypothesis 2 about the relationship between EPS and stock prices is supported whereas H3 is rejected. This suggests that EPS both has a minimal impact on stock prices and a detrimental impact.

The significance level for hypothesis 3's claim that ROE affects stock prices is 0.6749 > α = 0.05, causing H0 to be accepted/contrary to H3 which is unacceptable. It has been indicated that ROE does not have a significant impact on share prices, and has a negative effect on them.

Based on the results of the investigation, ROA has no effect either simultaneously or partially on value of stocks in the financial industry business which were recorded during the 2016–2020 ISSI observation period.

During the 2016-2020 ISSI observation year, the share prices of financial sector businesses were not impacted by EPS, whether partially or simultaneously.

According to ISSI's observations from 2016-2020, value of stocks in the financial industry businesses were not impacted by ROE, either partially or simultaneously.

Conclusion

The stock prices of businesses in the financial industry that are listed on the Indonesian Sharia Stock Index (ISSI) are not impacted by EPS and ROE. This holds true for all variables, whether taken partially or simultaneously. In other words, the share prices of financial businesses on the ISSI are unaffected by ROA, ROE, and EPS.

Suggestion

Based on the justification and findings mentioned above, the recommendations that can be given to capital market players who will invest in shares on the Indonesia Stock Exchange are to pay more attention to fundamental and technical factors, especially the condition of financial companies (issuers), because investors currently tend to be more speculative. where investors make decisions based on other factors without paying attention to or ignoring the information contained in the information contained in the information.

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