THE EFFECT OF RETURN ON ASSETS, RETURN ON EQUITY AND EARNING PER SHARE ON STOCK PRICE
(Empirical Study on Company Sub-Sector Advertising, Printing and, Media Listed on Indonesia Stock Exchange Period 2015-2018)

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ABSTRACT

This research objective was to identify the relation between Return On Assets (ROA), Return On Equity (ROE), and Earning Per Share (EPS) partially and simultaneously on the Stock Price of Company. The sample in this study were collected from annual report of eight service companies listed on Indonesia Stock Exchange in the period of 2015-2018 in media, printing, and advertising subsector. In analyzing the information, it was used multiple regression analysis using hypothesis test and classical assumption test. The output shows that there are significant partially impact of that three variables on Stock Price while there is also simultaneously effect on Stock Price.
Keywords : ROA, ROE, EP, Stock Price

INTRODUCTION

Capital market development in the era of modern economic globalization shows a very significant development. Capital markets can be one thing that really has an impact and be an alternative to build up the economics activities. The capital market trades in a broad range and long term period for financial market instruments both for Islamic and conventional. Investments intended for one or more assets owned, with the expectation of profit in the future, but in terms of reality, the investment has unpredictable risks. The investment is divided into two parts, namely by real assets investments and securities investments. Real assets can be a realization by tangible gold, silver, art goods, property, etc. While the investment in the form of securities can be controlled by an entity for example stocks, bonds, proof of debt, etc. Stock is one financial market instruments are most popular because it can be issued by the company and can be an option when deciding to commit funding to the company.

The company financial performance can be a very significant factor in terms of demand and supply of the stock price. As known, the assessment of the company's financial performance depends on the control that occurs on the company itself. One way to assess the performance of firms which can be   references by analyzing the

company's financial reports using financial ratios. The company must also have a healthy level of management performance so that it can survive and continue to grow that the results will provide value to stakeholders.

Assuming the stock price of the average company subsector advertising, printing and media the possibility of stock price will be a mystery until the evidence of the stock price increase. If the company's financial performance shows an improvement then it implies that the company's stock price gets higher than before due to the investor or prospective investor confidence in the company.

The ratio is commonly used as a measure of financial performance is Return on Assets (ROA). Furthermore using ROA, return on equity (ROE) can be utilized as a reference to quantify financial performance of a company. ROE is measured by comparing net income and total capital. While Earning Per Share (EPS) is the level of benefit accomplished by company for each stock of company. Over the past four years, the stock price in the sub-sectors of advertising, printing, and media fluctuated. Fluctuations vary depending on the state of the company. Some of them, give effect both technically and fundamentally.

Table 1 indicates the average level of asset management in the company, the average profit earner by company, and earnings per share. Table 1 shows that ROA, ROE, and EPS value fluctuates within the last four years. The fluctuated ratio need to know the effect, this is because the advertising market and increasing media where digital advertising is increasing the company's stock price should be increased by itself. The profitability ratio can be an indicator of a very efficient way to measure how well companies manage earnings and how significant these ratios in affecting stock prices on companies subsector advertising, printing, and media.

In a study conducted by Rizqi and Rishi (2016), there is no significant effect of EPS and ROA to the stock price, but there is significant effect of ROI and NPI to the stock prices. But simultaneously, the research conducted in Telecom company has no significant effect on the stock prices from four variables tested. However, a different result in the can by Ridha et al (2019), there is positive effect of EPS on company's stock price. The studies that have been mentioned, there are differences between each study might be due to several factors.

Therefore, time attracted to the stock price on the advertising subsector originating from the trade, services, and investments that listed on IDX using the ratio. This study aimed to the profitability value of a company. The profitability ratios were tested in this study are ROA for quantifying the capability of the capital invested. Return On Equity (ROE) utilized to evaluate the rate to the return of capital while Earning Per Share (EPS) illustrated the income per share. This study forms interesting and important case study that is Return On Assets (ROA), Return On Equity (ROE) and Earning Per Share (EPS) on Subsector Advertising, Printing and Media for the Period 2015 – 2018.

LITERATURE REVIEW

STOCK PRICE

According to (Hery, 2014) The main source of the paid-up capital is derived from the issuance of shares (share capital). According to (Hartono, 2011) the stock price is price in the financial exchange in the ideal time assigned by the market companion. Nominal size determination depends on each company. The nominal value is generally lower than the initial stock price or issue price of the shares.

RETURN ON ASSETS

Profitability measured by ROA which quantifies the company ability in making the profit. ROA is the comparison between the results (return) on the assets used in the company (Kasmir, 2014).

RETURN ON EQUITY

The return on equity explains the correlation between net profit and total equity. According to (Sartono, 2012) Return on equity quantifies the company ability in making profit available to company shareholders. The quantificaction of the income is prefered of company owners both for common shareholder and preferred shareholders on the invested capital.

EARNING PER SHARE

Based on (Kasmir, 2014) Earning Per Share (EPS) as follows as the proportion ratio of income per share, or also known as book ratio is the ratio to measure the management achievement in accomplishing benefits for investors. Understanding EPS by (Fahmi, 2012) is earnings per share in the form of benefits provided to shareholders of any shares owned.

HYPOTHESIS

H_1: Return on Assets (ROA) partially has an effect on the company's stock price.

H_2: Return On Equity (ROE) partially has an effect on the company's stock price.

H_3: Earning Per Share (EPS) partially has an effect on the company's stock price.

H_4: ROA, ROE, and EPS simultaneously have effect on the company's stock price.

RESEARCH METHODOLOGY

RESEARCH POPULATION AND SAMPLE

The population in this investigation are service company in the subsector advertising, printing, and media for period 2015 – 2018 total of 19 companies. Population is a collection of all measurements, objects, or individuals that are being studied (Zulkarnaen, W., et al. 2018:55). The test were obtained by purposive sampling technique and the following criteria are : (1) Company subsector advertising, printing, and media listed on the Indonesia Stock Exchange for the period 2015 – 2018, (2) Company subsector advertising, printing, and media that do not provide financial reports during the period 2015 – 2018. (3) Company subsector advertising, printing and media that indicated outliers data sample during the period 2015 – 2018. The samples involved 8 companies with 32 observations.

OPERATIONAL DEFINITION

RETURN ON ASSETS

This ratio is for identifying the effectiveness of company management in making the profit , gain on sale of the company. According to (Mardiyanto, 2009)ROA is the ratio in measuring the capability of a company to make profit from investment. The better productivity is caused by the higher ROA. The higher the profits obtained by the company, making the company's profitability levels are also higher.

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

RETURN ON EQUITY

This ratio is for measuring the net income earned from managing the capital invested by the owner of the company. If a company has a future that can benefit investors, the transaction may improve the stock of company and price level will follow the development of the company's condition.

$$ROE = \frac{Net\ Profit}{Total\ Capital} x\ 100\%$$

EARNING PER SHARE

EPS is commonly used by analysts and traders to build up the company's financial strength and is often regarded as one of the significant factors in deciding the estimation of a stock. The increase in EPS will make the market reacted positively, which implies that the EPS figure has impact on stock price of a company.

$$EPS = \frac{Earning\ After\ Tax}{Outstanding\ Share}$$

RESEARCH MODEL

Multiple linear regression analysis is used to utilized the impact of independent variable to subordinate/dependent variable. The independent variables in this study are ROA, ROE, EPS, and Stock Price is as dependent variable. The formula is :

$$Y = α + β1X1 + β2X2 + β3X3 + e$$

Whereby :

Y   = Dependent Variable
a = Constanta
β1, β2, β3   = Coefficient Regression
X1, X2, X3   = Independent Variable
e   = Error

THE EMPIRICAL RESULT

$$Y = 5,999 + 0,116OA - 0,079ROE +\ 0,009EPS$$

HYPOTHESIS TEST

PARTIALLY TEST (T-TEST)

While t count of the ROA, ROE, and EPS on stock prices companies in the period 2015 - 2018 are as follows:

1. ROA (X1) has effects on the Stock Price (Y)

   The t-test of Table 3 resulted a significant value of 0,036 < 0,05 then partially there is significant effect. While the value of t count 2,199 > 2,04523 and it tends that Ho is rejected. The figure describes that there is significant effect to the stock price.

2. ROE (X2) has effects on the Stock Price (Y).

The test shows that significant value of 0,011 < 0,05 then partially there is significant to the stock price. While the value of t count -2,708 > 2,00758 and it tends that Ho is rejected.

3. EPS (X3) has effects on the Stock Price (Y).

The test results in the table 3 obtained that significant value of 0,005 < 0,05, partially the stock price of a company is significant. While the t count < t table = 3,074 > 2,00758. So it tends that Ho is rejected.

SIMULTANEOUSLY TEST (F TEST)

COEFFICIENT DETERMINATION TEST (R^2)

The determination coefficient (R^2) is for quantifying the to measure the extent to which the independent variable's ability to effect the non-independent variable. The overview of determination coefficient in Table 5.

Table 5 shows the R Square value is 0,370. It indicates 63% of stock price is influenced by unidentified variables.

DISCUSSION

ROA IMPACT ON THE COMPANY STOCK PRICE

Based on t-test results it is obtained that value of 0,036 < 0,05 has the significant impact. While the value of t count 2,199 > table 2,04523 and it tends that Ho is rejected but Ha is accepted. Then the figure shows that there is significant impact on stock price. It shows that if ROA of a company is high then the company can process the assets well so that the company can make higher margin.

ROE IMPACT ON THE COMPANY STOCK PRICE

It was obtained a significant value of 0,011 < 0,05 from the t-results then partially there is significant to the company's stock price. While the t-count was -2,708 > t table 2,00758 and it can be stated that Ho is rejected and Ha is accepted. The results can explain that the return on equity from the company can impact the Stock Price obtained by the company, so it is possible for company generally that is profit.

EPS IMPACT ON THE COMPANY STOCK PRICE

The t-test of EPS obtained a significant value of 0,005 < 0,05. There is significant company stock price. While the value of t count < t table = 3,074 > 2,00758.

It can be stated that there is acceptance of Ha and rejection of Ho that means that there is significant effect on EPS.

THE SIMULTANEOUSLY EFFECT ON STOCK PRICE OF COMPANY

The F test shows that significant level of 5% and degrees of freedom df1 = 3 and df2 = 28, Ftable = 2,71. In the calculation, the calculated F value is more than Ftable that is 8,438 > 2,71 so that Ho is rejected. Whereas if seen from the sig count value is 0,000 which is < 0,05 then the decision also rejects Ho which means Ha is accepted. Then the three variables allow that each ratio have the significant effect to the company profit that can increae the stock price on the increasing the ratio.

CONCLUSION

The company's ROA is high, the company can process its assets well, and efficiently so that the company can make the higher profit. This has an impact on increasing the   enterprise value that in this study mentioned as the stock price of company. This is contrary to statement of (Abhimada et al. 2016) that ROA has no effect on stock price of company. The results also explain that the ROE from the company can impact the stock price, so it is impossible that for the company in general what matters is profit, because large profits are not necessarily of a company.

Ratios in EPS can be used to analyze company performance including the company's stock price. This is contrary to the theory of (Kanedia & Merinda 2016) where the ratio is a depiction of the amount of rupiah obtained for each share shows that partially effect of ROA, ROE, and EPS on the Stock Price. The result shows that the three variables allow each ratio simultaneously has a significant simultaneous effect on corporate profits which allows the increase in the enterprise stock price on the ratio increasing.

SUGGESTION

1. For the investors who will invest in the stock of companies, the researcher suggests analyzing every movement that occurs in ROA, ROE, and EPS as well as in several other financial ratios in projecting the movement of company stock prices so that investors can determine the right momentum in deciding to buy, sell or hold shares.

2. For companies to improve financial performance to generate net profits that continue to increase to get a relatively high number and can pay attention to increasing ROA and manage assets contained in the company each year.

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TABLE

Table 1

ROA, ROE, EPS Subsector Company Advertising, Printing, and Media

Period of 2015 – 2018

Ratios	2015	2016	2017	2018
ROA	10,16	11,86	12,99	8,85
ROE	15,11,	17,09	23,21	12,23
EPS	77,49	93,123	91,89	70,69

Source : www.idx.co.id Data processed by researchers

Table 2

Multiple Linear Regression Analysis Result

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	5,999	,309		19,401	,000

ROA	,116	,053	,791	2,199	,036
ROE	-,079	,029	-,899	-2,708	,011
EPS	,009	,003	-,509	3,074	,005

Source: Data processed by SPSS 25, 2020

Table 3

Partial Test Result

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	5,999	,309		19,401	,000
ROA	,116	,053	,791	2,199	,036
ROE	-,079	,029	-,899	-2,708	,011
EPS	,009	,003	-,509	3,074	,005

Source: Data processed by SPSS 25, 2020

Table 4

Simltaneous Test Result

ANOVA[a]					
Model	Sum of Squares	df	Mean Squares	F	Sig.
1 Regression	30,202	3	10,067	8,438	,000[b]
Residual	33,406	28	1,193		
Total	63,608	31			

Source:Data processed by SPSS 25, 2020

Table 5

Coefficient Determination Result

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,609[a]	,370	,300	1,23858	1,866

Source:Data processed by SPSS 25, 2020