



ANALYSIS RELATES TO THE IMPACT OF FINANCIAL PERFORMANCE ON BANKING STOCK PRICES

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Abstract

This study aims to analyze the effect of return on assets, return on equity and earnings per share on stock prices. This research is an explanatory research using quantitative methods. The sample used in this study is a state-owned banking company that meets the criteria by using the purposive sampling method. This study uses secondary data in the form of financial statements obtained from the Indonesia Stock Exchange for state-owned banks. The data analysis technique in this study used descriptive statistical analysis and panel data regression analysis using Eviews 12. The results showed that return on assets and earnings per share had a significant positive effect on stock prices, return on equity had no effect on bank stock prices for state-owned banking company.

Keywords: Return on Asset, Return on Equity, Earning per Share and Stock Prices.

INTRODUCTION

Banks have an essential and strategic function in supporting national economic development. Generally, banking services have two objectives, such as a provider of efficient payment mechanisms and instruments for customers to accept savings from customers and lend them to parties who need funds. The economy of a country would increase if the role of the banking system went well. Currently, the competition which occurred in the banking sector is starting to increase, due to the addition of new banks which are accompanied by better product offerings and profits. In Indonesia, there are four state-owned banks, namely Bank Mandiri, BRI, BNI and BTN. State-owned banks are commercial banks which most of their capital comes from the government. Because most of their capital comes from the government, state-owned banks are considered to have reliable financial performance and cannot compete with new banks.

One of the factors needed to aid the banking performance in an effort to run well, namely the need for providing credit facilities, requires the availability of funds from the bank itself, thus banks will try to get the funds needed. One of the efforts made by selling the company's shares in the capital market. The capital market is a means for investors and companies to interact with each other without having to meet face to face. Not only as a place to sell shares, the capital market also carries out its economic function by providing facilities to transfer funds from those who have excess funds to those who need it. When parties who have excess funds distribute funds to parties who lack the funds, so that there will be an increase production and later it would increase the company's prosperity (Aprilianti, 2018).

During 2013 until 2020, the price of banking shares has facing changed every year. Fluctuating stock prices make many investors done the trade stocks, whereas when the stock price drops, they immediately buy and when the stock price rises, they immediately sell it. Stock prices themselves could be predicted by analyzing financial statements. Financial statement analysis used to get better view about information related to the company's financial condition and reflects the company's ability to survive in market competition.

From the company's financial statements, some fundamental information can be seen, such as: cash flow financial ratios and other performance measures related to share prices. The financial ratios used in this research include return on assets (ROA), return on equity (ROE), and earnings per share (EPS). Return on assets (ROA) is a description of the company's ability to generate profits from available resources (assets) (Sirait, 2017). Return on Equity (ROE) shows the efficiency of using their own capital (Kasmir, 2019). Furthermore, Earning per Share is a form of delivering benefits given to shareholders from each share owned (Fahmi, 2016).

Return on Assets, Return on Equity and Earning per share should affect stock prices in the banking sector. Several research has been performed to investigate the impact from Return on Assets, Return on Equity and Earning per Share for various stock sectors that are listed on the Indonesia Stock Exchange. According to Ariesta & Malavia (2017), return on assets has a positive and significant affect on stock prices. This is according to research conducted by Yang (2020) who declared that the results of return on assets would have a significant affect on stock prices. However, there are opposite results from the results above conducted by Putra et al. (2021) who defines that return on assets has no affect on stock prices. And also research conducted by Djuniar (2021) defines that return on assets has no affect on stock prices.

According to Takaful & Rinofah (2021) return on equity has a negative and significant affect on shares prices. This is elicited from the research by Inayah & Kaniarti (2021) who stated that the return on equity has a significant affect on stock prices. This sounds opposite to the results of Handayani's (2021) research which defines that return on equity has no affect on stock prices. And this is also similar to the research by (Purba & Tipa, 2020) which shows that return on equity has no affect on stock prices.

Gunawan et al. (2020) announced that earnings per share have a significant positive affect on stock prices. This is in line with the research by (Surahmansyah, 2020). Meanwhile, there are also different results such as the results from the research conducted by Rahmadwi & Abundanti (2018) which define that earnings per share have no significant influence on stock prices. That is also in line with the research conducted by (Sakai & Dillak, 2021). Derived from

this background, this research aims to analyze the influence of ROA, ROE and EPS on banking stock prices in state-owned banks which registered on the Indonesia Stock Exchange during research period.

LITERATURE REVIEW

Based on the Indonesia Stock Exchange, the capital market is a meeting place for companies and other institutions. Governments that require lots of funds from the public for business development, expansion, additional working capital and others, with people who want to invest their funds. In addition to stocks, bonds and mutual funds, the capital market also trades in other forms such as warrants, rights and other derivative products.

Stocks according to the Indonesia Stock Exchange are evidence of equity participation in a company or proof of ownership of a company. The stock price is a reflection of company performance. In a short period of time, the price of a stock can be very volatile. Therefore, at the end of closing period, the stock price is still right to use as a reference in comparing or analyzing research. The investors aim to fund their money so they would get a return from the capital that has been invested in the company. These rewards can be in the form of dividends and capital gains called stock returns. A Return is an outcome obtained from investment. return can be in the form of realized returns that have occurred or expected returns that have not yet occurred but are expected to occur in the future.

Return on Assets (ROA) can be said to be a ratio of earnings power (earnings power ratio) which describes the company's ability to generate profits from available resources (assets) (Sirait, 2017). According to Kasmir (2019), Return on Assets is a ratio to determine the company's strength in obtaining profits or benefits before tax at the level of income, assets and share capital. Return on Equity (ROE) is a ratio to assess the net profit after tax with own capital (Kasmir, 2019). This ratio views the efficiency in the use of own capital. The higher the ROE of a company, the better or in other words the position of the owner of the company would get stronger and it does Conversely, if the ROE is low, it will get worse or the position of the owner of the company would get weaker. The ROE indicator is highly remarkable to notice in order to determine the extent to which the investment will be made by investors in a company which able to provide returns that are in accordance with the level expected by investors. The higher the ROE indicates the company's performance is getting better and would have an impact on rising the company's stock price. An increase in the company's stock price will provide high returns for investors. Thus, the enticingness of investors to the company would increase because of its rate return which is getting higher.

Earning per share (EPS) or income per share is a form of delivering benefits given to shareholders from each share owned (Fahmi, 2016). Earnings per share shows the company's net profit that is ready to be distributed to shareholders. High EPS would be an attraction for investors. The higher the EPS, the higher the company's ability to provide income to its shareholders.

In Law Number 10 of 1998 concerning Banking, The Banks are mentioned as business entities that collect funds from the public in the form of savings and distribute them back to the public in the form of credit and or others in an efforts to elevate the living standard of the people. The banking business includes three main activities, such as collecting funds, distributing funds and providing other bank services. The role of banking is greatly prominent in advancing the country's economy. Almost all factors related to financial activities always require the services of a bank. According to the theory and the results of previous research, a hypothesis can be formulated to answer the objectives of this research as follows:

H₁: Return on Assets has a significant positive affect on stock prices.

H₂: Return on Equity has a significant positive affect on stock prices.

H₃: Earning per share has a significant positive affect on stock prices.

H₄: The current model used in this research is highly accurate to explain the stock price of state-owned banks that listed on the IDX.

METHOD

The design used in this research is causal quantitative due to its purposes to obtain a causal relations that influences from one variable to another. This research has applies the secondary data method in the form of financial statements from banking companies that listed on the Indonesia Stock Exchange. This research was performed in order to explored the impact of return on assets, return on equity and earnings per share on banking stock prices. In this research, the independent variables used are return on assets, return on equity and earnings per share. While the dependent variable used is the stock price.

The population used are state-owned banks that listed on the Indonesia Stock Exchange, which consists of four state-owned banks, namely Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia and Bank Tabungan Negara. The sample used was taken by purposive sampling with the criteria of state-owned banks that listed on the IDX during 2013-2020 and also had submitted annual financial reports for the 2013-2020 period to the IDX. So that the entire population in this research can be managed as a sample or commonly referred as a

saturated sample. Data processing was carried out by panel data regression through Microsoft Excel 2019 and Eviews 12.

RESULT AND DISCUSSION

The description of the variables in this research could explain the independent variables, namely return on assets, return on equity, and earnings per share, as well as the dependent variable, namely stock prices. Descriptive statistical analysis was applied to analyze, describe and explain the characteristics from the variables that used in this research.

Table 1 The Descriptive Statistics Result from the Research Variables

Deskripsi	Stock Price	ROA	ROE	EPS
Mean	4298.44.00	2.126.875	1.302.031	4.396.563
Median	3870.50.00	1.925	13.215	404.05.00
Maximum	9900.00.00	6,2	34,11	983
Minimum	762	00.13	1	103
Std. Deviation	2469.66	1.259.235	7.539.358	2.833.526

Source: Output Eviews 12 (2022)

Elicited to the descriptive statistics result from the Table 1, it is known that the minimum value of the stock price is IDR 762.00 while the maximum value is IDR 9.900.00 with the average share price is IDR 4.298.44. The Return on Assets (ROA) variable in this research indicates a minimum value of 0.13 percent. The maximum ROA value is 6.2 percent with the average ROA value is 1.9 percent. The minimum return on equity (ROE) is 1 percent, while the maximum ROE is 34.11 percent with the average ROE is 13.02 percent. The Earning per share (EPS) variable in this research has a minimum value of Rp. 103.00, a maximum value of IDR 983.00 and an average EPS value of IDR 439.65.

This research used panel data because the research object consists of 4 state-owned banks that listed on the Indonesia Stock Exchange in the form of annual financial reports. The research method used is panel data regression. From this research, it is inevitable to do some tests in choosing the right model. The model selection test used the Chow test method and the Hausman test. According to the Chow test and Hausman test results in this study, it is known that the Fixed Effect method was the most appropriate regression model.

Table 2 The Results of Panel Data Regression Model Selection

Method	Test	Result
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Chow Test	Fixed Effect vs Common Effect	Fixed Effect
Hausman Test	Random Effect vs Fixed Effect	Fixed Effect

Source: Output Eviews 12 (2022)

Table 2 indicates that the results of the two tests which have been performed in this research were obtained the same results from the two tests, namely the fixed effect. Panel data regression analysis aims to see whether there has the influence of the ROA, ROE and EPS variables to the stock price of state-owned banks with the model used in this analysis is the fixed effect.

Table 3 Fix Effect Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5766.364	6.396412	8.313180	0.0000
ROA	747.2272	2.567043	2.910847	0.0075
ROE	-33.81779	5.610074	-0.602.805	0.5521
EPS	0.131080	0.041517	3.157270	0.0027

Source: Output Eviews 12 (2022)

According to the panel data regression outcomes through Fixed Effect method in Table 3, the regression equation for stock prices at these state-owned banks could be explained as follows: 1) If there is no change in return on assets (ROA), return on equity (ROE) and earnings per share (EPS) then the share price of BUMN Bank would be IDR 5,766.36; 2) an increase in return on assets of 1 (one) percent will boost the share price by IDR 747.23; 3) an increase in ROE at a state-owned bank by 1 (one) can diminish the stock price of a state-owned bank by IDR 33, 82; and 4) a 1 (one) percent increase in EPS in state-owned banks can raise the share price by IDR 0,131.

The significant value from the impact of return on assets (ROA) on stock prices is $0.0075 < 0.005$, then H_1 (Hypothesis 1) is confirmed, which means that ROA has an affect on stock prices. The impact of ROA is 747.2272 with a positive direction. The affect of return on equity (ROE) to stock prices is $0.5521 > 0.05$, so H_2 (Hypothesis 2) is rejected, which means ROE has no impact on stock prices. The number of influences from ROE to stock prices is 33,81779 with a negative influence direction. The significant value from the affect of earnings per share (EPS) on stock prices is $0.0027 < 0.05$, then H_3 (Hypothesis 3) is confirmed, which means that EPS has a significant positive affect on stock prices. The number of the EPS effects on stock prices is 0.131080 with positive direction of influence.

The model's feasibility test (Goodness of fit test) is used to appraise whether the models used in this research are appropriate or not in order to perform a predictive function on stock prices.

Table 4 Goodness of fit test result

R-squared	0.756964	Mean dependent var	4298.438
Adjusted R-squared	0.698635	S.D. dependent var	2469.660
S.E. of regression	1355.763	Akaike info criterion	17.45276
Sum squared resid	45952321	Schwarz criterion	17.77339
Log likelihood	-272.2441	Hannan-Quinn criter	17.55904
F-statistic	12.97754	Durbin-Watson stat	1.514548
Prob(F-statistic)	0.000001		

Source: Output Eviews 12 (2022)

Based on Table 4, the probability value of F (F-statistic) is $0.000001 < 0.05$ by error degree of 5 percent (0.005) which indicated that the probability (F-statistic) is less than 0.05 then the independent variable return on assets (ROA), return on equity (ROE) and earnings per share (EPS) are appropriate to described the stock prices of state-owned banks that listed on the Indonesia Stock Exchange during 2013-2020. The coefficient value of Adjusted R-squared is 0.698635. This shows that the ability of the independent variables used in this research, namely Return on Assets, Return on Equity and Earning per Share, explained the stock price of 69.86 percent. The remaining 30.14 percent was determined by other independent variables which were not examined in this research.

In state-owned banks, the return on assets could affect the stock prices in banks. Which means that an increase or decrease in ROA will affect the stock price of banks. The ROA owned by state-owned banks in the 2013 - 2020 was quite good with an average of 2.1 percent. This shows that banking companies which have been using the capital comprehensively and efficiently. Return on Assets (ROA) is a ratio that shows the results (return) on the total assets used in the company. ROA was also a measure of the effectiveness of the company's management in managing its investments. This ratio shows the company's ability with all the capital to earn profits through data on the balance sheet and the company's profit and loss calculation. A good ROA will reflect the optimal use and run the company's assets, therefore it will raise the profitability and stock price of the company. ROA is one of the things which concern potential investors. The higher the return on assets ratio, then it will show the company's high ability to generate profits for the company, so the market would believe in the company's future prospects, which may have an impact on stock demand and will have an impact on increasing the stock prices of the company and also applies vice versa. The results from this research were in line with research by (Ariesta & Malavia, 2017) and (Yang, 2020) who explained that the return on assets has a positive and significant affect on stock prices. However, it is opposed to the research from (Djuniar, 2021) and (Putra et al., 2021) which

declared that return on assets has no influence on stock prices. This could be seen from the average ROA which fluctuates up and down every year, but the stock price continues to increase. This condition will illustrate that the company's ability to earn profits and control operational and non-operational costs has not been maximized.

Return on Equity (ROE) has no influence on banking stock prices. This is due to the average ROE data for state-owned banks fluctuating up and down every year but stock prices would continue to rise. It can be said that the decline in the value of ROE will not automatically lower the stock price. This could happen because the ROE ratio is more emphasized on the element in measuring the company's internal financial performance without any external elements from the company. Return on Equity (ROE) is a ratio to average net profit after tax with own capital and will be able to estimate the return on investment of shareholders. This ratio applies to efficiency in the use of own capital. The research results are in line with the research from Handayani (2021) and Purba & Tipa (2020) who stated that return on equity has no significant affect on stock prices. However, this research was opposed to the research by Takaful & Rinofah (2021) and Inayah & Kaniarti (2021) which declared that return on equity has a significant affect on stock prices. The higher the ROE will reflect the effectiveness of profits from the company's own capital. This causes investors to increasingly believe in investing the shares in companies that have a high ROE value.

Earning per share (EPS) has an impact on the stock prices in state-owned banks that are listed on the Indonesia Stock Exchange. This occurs due to the investors always considering the EPS as a decision to purchase the shares. Besides, investors also use reference groups and experience in making investments. Earning Per Share (EPS) is a ratio that indicates how much profit investors receive per share they own. A low ratio means that the company's administration has not succeeded in satisfying the shareholders. On the other hand, the higher the ratio, the happier the shareholders would be, thereby it will boost the share price. However, in this case, investors believe that a high EPS might not necessarily provide the desired return, so it cannot implement to measured stock prices. These results are in line with the research by Gunawan et al. (2020) and Surahmansyah (2020) who stated that earnings per share have a significant positive affect on the stock prices. This surely happens because Earning per Share is a variable that needs to be considered by investors before making the investment in a company. Because the increase in the value of Earnings per Share will also be followed by an increase in stock prices, therefore it will attract investors to fund their money. However, these research results

are not in line with research by Rahmadewi & Abundanti (2018) and Sakai & Dillak (2021) who explain that earnings per share have no affect on the stock prices.

CONCLUSION AND SUGGESTIONS

The return on assets (ROA) of state-owned banks has an affect on the fluctuations of the banking stock price. This caused of ROA is one of the indications which are noted by investors when funds their money. By looking at a good ROA value, investors believe that the company would be able to manage its capital well and efficiently so that it will increase profitability and share prices. Return on equity (ROE) has no affect on stock prices because investors will not notice the ROE once making investment decisions. ROE value in state-owned banks tends to fluctuate every year while stock prices continue to increase, therefore it can be concluded that the increase or decrease in stock prices was not determined by ROE. Earnings per share (EPS) owned by state-owned banks will affect the share price. This is due to the investors when making investment decisions tends to look at EPS. If investors think that the high EPS could provide the desired return, then EPS can be used to estimate the stock prices. The increase in the value of Earning per Share is also followed by an increase in stock prices that surely attract investors to fund their money.

The results from this research are proposed to contribute an overall view in the awareness of investors to fund their money in the banking shares sector. The management and company stakeholders are likely to highlighted in profitability, which will determine the stock prices in the banking sector. Future researchers with identical topics are likely to add other independent variables that are expected to have an impact on stock prices.

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