
THE EFFECT OF EARNING PER SHARE AND RETURN ON EQUITY ON STOCK PRICE (STUDY ON LISTED BANKS)

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ABSTRACT

Banking is an important industry in supporting the overall development financing program both as a fundraiser, as an investment and working capital financing institution as well as an institution that channel funds to people who are underfunded. Stock prices are important for investors because they will determine the amount of investor wealth. Investors are willing to buy shares at a certain price if they get more benefits or results than the sacrifices they have made. The data of the sample drawn from financial statements in period of 2006 to 2009 which make total observed data is 40. This study finds that partially EPS and ROE variables affect stock prices which can be seen in the results of the t test.

Keywords : earnings per share, return on equity, stock prices

1. INTRODUCTION

The capital market has a big role for the economy of a country because the capital market runs two functions, namely the function of the economy and financial functions. The capital market has an economic function because the capital market provides facilities that bring together two interests, namely those with excess funds and those who need funds. The capital market has a financial function because the capital market provides the possibility and opportunity to obtain benefits for the owner of the fund, according to the characteristics of the chosen investment. The capital market can also be said as a forum that can eliminate the monopoly of the source of capital and the monopoly of ownership of the company because the capital market is a means for companies to be able to go public and then holders of securities also become owners of the company so that the company becomes public property.

Banking is an important industry in supporting the overall development financing program both as a fundraiser, as an investment and working capital financing institution as well as an institution that channel funds to people who are underfunded. Banks as institutions of public trust and part of the monetary system have a strategic position to support economic development. Therefore, the government has set requirements or conditions for the banking industry since its founding permit, requirements for prospective managers and operational provisions based on the principle of prudence (prudential regulation) in conducting bank business activities. The capital market situation is a step for investors to decide to buy shares. Information in the capital market influences investor confidence that shapes the efficiency of the capital market. The increase and decrease in transaction volume and the stock price index indicate investor confidence in conducting transactions in the capital market. Companies that have stable stock prices and tend to increase are important for the company because of course it will encourage the interest of prospective investors to invest in the company.

Stock prices are important for investors because they will determine the amount of investor wealth. Investors are willing to buy shares at a certain price if they get more benefits or results than the sacrifices they have made. For this reason, a number of information related to stock prices is needed to be able to make decisions about stocks that are worthy of being chosen. Many factors influence changes in stock prices, both from internal companies and

from external companies. The company's conditions reflected in the company's financial statements, namely in the form of balance sheets, profit and loss, company cash flows and other supporting reports are internal factors. And the condition of this company is one of the considerations for investors to invest their capital. Political conditions, economic conditions, and industry are external factors which also greatly affect stock prices.

2. LITERATURE REVIEW

Earnings per share (EPS) information of a company shows the size of the company's net profit that is ready to be shared with all company shareholders. The amount of EPS of a company can be known from the company's financial statement information. Although not all companies include the amount of EPS, the amount of EPS can be calculated based on the balance sheet and corporate income statement. Earnings per share (EPS) shares are obtained from the financial statements presented by the company. Therefore the first step taken is to understand the financial statements presented by the company.

There are two main financial statements, namely balance sheet and income statement. Some studies show that EPS contains information that is useful for making predictions about future stock prices. Tarore dan Pontoh (2010), Indira and Dwiastutiningsih (2015), Utami and Darmawan (2018), and Agnatia and Amalia (2018) find that profitability has significant and positive to share prices. More specific, Suaryana (2013), and Munggaran et al. (2017) find that earnings per share has significant effect to share price.

Return on equity (ROE) is one of the main tools of investors that are most often used in valuing a stock. In its calculations, ROE is generally generated from the distribution of profits with equity over the past year. Although the method of calculating it is very easy but by understanding in depth ROE can provide an overview of three main things, namely: (1) the company's ability to generate profits (profitability); (2) company efficiency in managing assets (assets management); and (3) debt used in doing business (financial leverage). Lumowa (2015), Kristanti and Sutono (2016), Putra and Lestari (2016), Johan and Septariani (2017), *Hikmah*. (2018), and Utomo (2019) show that return on equity (ROE) has positive and significant effect on share price.

Ha: profitability affects the value of stock prices on banks listed on the Indonesia Stock Exchange.

3. RESEARCH METHOD

The population of this study is that all public banks and are listed on the Indonesia Stock Exchange which make the sample of this study are 10 banks. The data of the sample drawn from financial statements in period of 2006 to 2009 which make total observed data is 40. The independent variable in this study is earnings per share which is the ratio between earnings after tax and the number of shares outstanding which shows net income per share in 2006 - 2009 and return on equity which is the ratio of net income to equity in ordinary shares or return on investment shareholders. The dependent variable is stock prices, namely the last price reported by securities sold on the stock and expressed in units of IDR. This study conducts multiple regressions as method of analysis with equation note as follows.

$$\text{Price} = \alpha + \beta_1\text{EPS} + \beta_2\text{ROE}$$

4. RESULT AND DISCUSSION

4.1. Results

Table 1 shows that bank that reached the highest EPS level was Bank Rakyat Indonesia. TBK in 2006 amounted to 346.53% and in 2009 amounted to 592.73%, which indicated that BRI had good financial performance because it had a large net income, while

the lowest EPS is ICB Bumiputera Tbk which only ranged from 1.59% to 4.13% during 2006 to 2009.

Table 1. Earnings per share

Bank	Earnings per share			
	2006	2007	2008	2009
Mandiri	117.37	209.46	88.55	19.26
BNI	145	58.79	80.04	162.63
BRI	346.53	392.77	483.43	592.73
Danamon	267.97	420.6	303.21	182.65
BCA	344.16	364.17	234.28	276.1
Permata	40.23	64.45	58.43	62.01
Pan Indonesia	32.47	42.17	34.49	38
ICB Bumiputera	1.59	4.13	0.39	1.01
Niaga	53.69	62.53	28.33	65.52
NISP	48.02	43.01	54.5	74.96

Rentability of own capital in this case is the return on equity equity commonly used to measure the level of profit generated from shareholder investment. Investors perceive that ROE is an important indicator of profitability, because ROE is an indicator to measure management success in order to carry out its duties of generating maximum profits for capital owners. The following is the ROE data of 10 banks that are the object of research. Table 2 shows that BRI banks have the highest average ROE growth during 2006 - 2009, which ranged from 34.99 - 40.03%, this indicates that BRI banks have high net income, increasing the ROE percentage.

Table 2. Return on equity

Bank	Return on equity			
	2006	2007	2008	2009
Mandiri	10.75	21.66	26.44	30.83
BNI	19.19	8.6	12.52	17.99
BRI	34.99	40.03	39.46	36.29
Danamon	22.28	30.59	25.31	15
BCA	33.58	31.32	33.16	32.11
Permata	12.1	18.88	17.6	15.85
Pan Indonesia	15.76	17.46	14.54	13.09
ICB Bumiputera	2.43	6.1	1.16	2.1
Niaga	19.46	19.74	11.66	19.32
NISP	13.56	10.45	12.51	14.8

The stock price that applies every day is always changing, up or down. The stock price data obtained in this study also fluctuates. But the stock price used in this study is the closing price and the list of 10 bank stock prices. Table 3 shows the stock price data obtained from the financial statements during the period of 2006 to 2009, BRI banks have the highest share price, which ranges from Rp.5150 to Rp.7650. While the bank danamon ranked second highest share price, which fluctuated between Rp.4550 to Rp.6046, while the lowest share price was ICB Bumiputera which was only in the range of Rp. 90 to Rp. 120.

Table 3. Share price

Bank	Share price			
	2006	2007	2008	2009
Mandiri	2900	3500	2025	4700
BNI	1843	1970	680	1980
BRI	5150	7400	4575	7650
Danamon	5102	6046	2343	4550
BCA	2600	3650	3250	4850
Permata	870	890	490	800
Pan Indonesia	580	680	580	760
ICB Bumiputera	90	131	62	120
Niaga	920	900	495	710
NISP	834	900	700	1000

Table 4 presents the result of multiple regressions of EPS and ROE on share price. The results show that the EPS and ROE have significant and positive on share price partially. The correlation (R) between the independent variable and the dependent variable is between EPS and ROE and the stock price is 0.827 so it can be concluded that there is a very strong relationship between the independent variable and the dependent variable. Also, the R square shows that the contribution of independent variables to explain the model of dependent variable is 0.684 or 68.4% and the remainder is explained by other factors which are not included in this study.

Table 4. Multiple regression result of EPS and ROE on share price

Independent variables	Coefficients
Constant	376.383
EPS	7.831*
ROE	92.996**
R	0.827
R square	0.684

Notes: Dependent variable is share price. EPS is earnings per share, ROE is return on equity. * and ** are significant at 0.01 and 0.05 respectively

4.2. Discussions

In stock investment decision making there are many factors that need to be considered both internal and external factors that can be analyzed technically or fundamentally in this study. The research variable is limited to accounting variables only in the form of analysis of EPS and ROE which are considered to greatly influence stock investment decisions. Based on the results of the research and data processing conducted on the effect of EPS and ROE on the stock price of the 10 banks listed on the Stock Exchange, the EPS and ROE have an effect on stock prices. The amount of the contribution of EPS and ROE variables to stock prices is 0.684 or 68.4% while the rest is explained by other factors not included in this study. Based on the results of hypothesis testing it was found that partially EPS and ROE variables had an effect on stock prices.

Those results are consistent with studies by Tarore dan Pontoh (2010), Indira and Dwiastutiningsih (2015), Utami and Darmawan (2018), and Agnatia and Amalia (2018). The results of this study also support the studies of Suaryana (2013), and Munggaran et al. (2017) who find that earnings per share has significant effect to share price. Moreover, this study also supports the studies of Lumowa (2015), Kristanti and Sutono (2016), Putra and Lestari (2016), Johan and Septariani (2017), *Hikmah* (2018), and Utomo (2019) who show that return

on equity (ROE) is positive and has significant effect on share price. Normally, EPS is used to find out company profits that will be shared with shareholders so that investors get an idea of the results of their future investments, while by analyzing ROE investors can find out the amount of income earned from capital investment, therefore investors tend to use EPS and ROE for decision making in stock investments in addition to other financial factors or ratios.

5. CONCLUSION

BRI Bank is the bank that has the highest EPS and ROE figures throughout 2006-2009. Every increase in EPS and ROE will result in an increase in stock prices. Partially EPS and ROE variables affect stock prices which can be seen in the results of the t test. The contribution of independent variables to the dependent variable is 68.4% while the rest is explained by other variables. For investors, the authors suggest looking at other fundamental factors in addition to financial ratios, such as inflation rates, interest rates, government political policies, security levels, and government regulations and market sentiment in order to obtain a more accurate analysis of stock price changes. For companies, companies should better improve the company's financial performance so that EPS can be obtained high and the company is able to increase profits. Because according to this study EPS and ROE have a positive effect on stock prices in this industry. With the increasing EPS and ROE more and more investors are interested in investing so that they can increase stock prices. To further refine the research that has been done, the author also provides suggestions that can be used for further research. Research can use a larger amount of data, in a longer period of time and can be carried out on various other industry sectors on the Indonesia Stock Exchange in order to provide better results.

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