ANALYSING THE EFFECT OF RETURN ON EQUITY, RETURN ON ASSETS AND EARNINGS PER SHARE TOWARD SHARE PRICE: AN EMPERICAL STUDY OF FOOD AND BEVERAGE COMPANIES LISTED ON INDONESIA STOCK EXCHANGE

ANALISA PENGARUH RETURN ON EQUITY, RETURN ON ASSETS DAN EARNINGS PER SHARE TERHADAP HARGA SAHAM: STUDI EMPIRIS PADA PERUSAHAAN MAKANAN DAN MINUMAN YANG TERDAFTAR DI BURSA EFEK INDONESIA

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ABSTRACT

Simplicity of using financial ratios offers the investors an easy way to comprehend and predict a company's financial performance. The objective of this research is to identify the effect of some financial ratios, which are Return on Equity (ROE), Return on Assets (ROA) and Earnings per Share (EPS), toward share price of Food and Beverage companies listed on Indonesia Stock Exchange (IDX). Twelve companies' financial report from 2010 to 2014 are collected by using purposive sampling method. Tests conducted show that ROE, ROA and EPS simultaneously have significant effect toward the share price, yet partially, only EPS does significantly affect the share price; both ROE and ROA do not have significant effect to the share price. Therefore, for those who are interested in investing on the food and beverage companies listed on IDX should put Earning per Share as the top indicator for their investment decision process.

Keywords: Return On Equity, Return On Assets, Earnings Per Share, Share Price

ABSTRAK

Kesederhanaan dalam penggunaan rasio finansial menawarkan para investor cara yang mudah untuk mempelajari dan memprediksi performa finansial perusahaan. Tujuan penelitian ini adalah mengidentifikasi pengaruh beberapa rasio finansial, yaitu Return on Equity (ROE), Return on Assets (ROA) dan Earnings per Share (EPS), terhadap harga saham perusahaan makanan dan minuman yang terdaftar di Bursa Efek Indonesia. Laporan keuangan dari dua belas perusahaan tahun 2010-2014 dikumpulkan melalui metode purposive sampling. Hasil penelitian menunjukan bahwa ROE, ROA dan EPS secara simultan memiliki efek signifikan terhadap harga saham. Disisi lain, secara parsial hanya EPS yang berpengaruh signifikan terhadap harga saham; ROE dan ROA keduanya tidak berpengaruh signifikan. Bagi yang berminat untuk berinvestasi di perusahaan makanan dan minuman yang terdaftar di Bursa Efek Indonesia sebaiknya menjadikan earnings per share sebagai indikator utama dalam proses keputusan investasi.

Kata Kunci: Return On Equity, Return On Assets, Earnings Per Share, Harga Saham

1. INTRODUCTION

Research Background

As of today, Indonesia is the fourth most populated country and the world's tenth largest in terms of purchasing power parity. By having a population of 252 million, Indonesia offers huge market opportunities for Food and Beverage industry. According to PT Tiga Pilar Sejahtera, Tbk Annual Report (2014)[22] Indonesian Food and Beverages Association (GAPMMI) stated that food-processing industry is the largest contributor to GDP and the driver of overall performance; domestic sales of the industry grew at an average of 6% per year. Global Business Guide Indonesia in its article[21] explained that the increase in individual income, escalation in food and beverage spending, and the rise of middle class consumer number amplify the sales growth in Indonesia. Inevitably, national food and beverage companies grow more ambitious to the point where some of them have successfully expanded to global market. In the meantime, the internationalization of local cuisine has brought new opportunities to foreign companies in selling their products to Indonesia consumers who are open to new foods and flavours. Furthermore, the urban lifestyles which lead to a variety of diets and development of retail infrastructure in form of malls and supermarkets have been playing a significant role in the food and beverage industry expansion.

Food and beverage is indeed one of the most developed industries in Indonesia, with many competitors vying in the market. Despite the industry's rapid growth in recent years, by considering the continual rise of personal income and the spread of modern retails to remote areas of the country, the market potential is still favourable. In spite of the abundance of opportunities, in the Indonesia Stock Exchange (IDX), the promising food and beverage subsector share prices show fluctuating performance. The following table expounds food and beverage companies listed on IDX and their share price.

Table 1. Food and Beverage Companies Listed on IDX and Closing Share Price

No.	Company	Code	Closing Price				
			2010	2011	2012	2013	2014
1.	AkashaWira International Tbk.	ADES	1,620	1,010	1,920	2,000	1,375
2.	Tig aPilar Sejahtera Food Tbk.	AISA	713	495	1,080	1,430	2,095
3.	Tri Banyan TirtaTbk.	ALTO	-	-	302	570	373
4.	Wilmar Cahaya Indonesia Tbk.	CEKA	1,100	950	1,300	1,160	1,500
5.	Delta Djakarta Tbk.	DLTA	120,000	111,500	225,000	380,000	390,000
6.	Indofood CBP Sukses MakmurTbk.	ICBP	4,675	5,200	7,800	10,200	13,100
7.	Indofood Sukses MakmurTbk.	INDF	4,875	4,600	5,850	6,600	6,750
8.	Multi Bintang Indonesia Tbk.	MLBI	274,950	359,000	740,000	1,200,000	1,040,000
9.	Mayora Indonesia Tbk	MYOR	9,214	12,214	17,143	26,000	20,900
10.	Prasidha Aneka NiagaTbk.	PSDN	80	310	205	150	143
11.	Nippon Indosari CorpindoTbk.	ROTI	530	665	1,380	1,020	1,385
12.	Sekar BumiTbk.	SKBM	-	-	390	-	-
13.	Sekar LautTbk.	SKLT	140	140	180	180	300
14.	Siantar Top Tbk.	STTP	385	690	1,050	1,550	2,880
15.	Ultrajaya Milk Industry& Trading Co. Tbk.	ULTJ	1,210	1,080	1,330	4,500	3,720

Source: Indonesia Stock Exchange 2015 [20]

In the equity market, a number of factors are influential towards the price of a share. An analysis of which factors will affect and to what extent they can affect the market price helps an investor in making investment decisions (Hemadivya and Devi, 2013)[1]. Recognising the

important factors and their impact on share prices is beneficial to people who are interested in and concerned about the company.

Analysing the financial report is tremendously beneficial in understanding and predicting the financial performance of a company while financial ratios are the old simple and practical financial and planning analysis tool. The ratios appeared in late nineteenth century and early twentieth century, and they are utilized by modern day accountants and financial analysts to this day. Due to the proven power of the ratio analysis in the practical financial and planning analysis, this research will explore the effect and power of some key ratios, which are return on equity, return on assets and earnings per share.

Research Objectives

This research aims to identify the effect of:
1. Return on equity, return on assets and earnings per share toward company's share price simultaneously.
2. Return on equity ratio on company's share price partially.
3. Return on asset ratio on company's share price partially.
4. Earnings per share on company's share price partially.

2. THEORETICAL FRAMEWORK

Financial Management

Poley and Poley (2010)[14] defined financial management as the management of the finance of a business or organization in order to achieve financial objectives. According to Baker & Powell (2005)[7] financial management is an integrated decision-making process concerned with acquiring, financing, and managing assets to accomplish some overall goal within a business entity.

Return on Equity

Return on equity is usually measured as:

$$\textbf{Return on Equity } = \frac{\textbf{Net income}}{\textbf{Total equity}}$$

Reilly and Brown (2012)[15] explained that the return on equity is extremely important to the owner of the enterprise (the common stockholder) because it indicates the rate of return that management has earned on the capital provided by stockholders after accounting for payments to all other capital suppliers. Traub (2001)[5] described that there are three ways that this ratio is typically used in evaluating a company's profitability and quality: It can be analysed as an absolute number; It can be compared with other companies; Its trend can be analysed.

Return on Assets

Horngren, Harrison and Oliver (2009)[12] said that return on assets measures a company's success in using assets to earn income. In a similar way, Gitman, Joehnnk and Smart (2011)[10] pointed out that return on assets reveals management's effectiveness in generating profits from the assets it has available.

Return on assets is calculated as follows: $$\textbf{Return on Assets } = \frac{\textbf{Net income}}{\textbf{Total assets}}$$

Earnings per Share

Eakins (2005)[9] noted that earnings per share ratios report the net income per share of stock. This ratio helps investors adjust for additional stock issues when reviewing company performance over time. According to Tandelilin (2010)[17], earnings per share of a company shows the company's net profit which is ready to be distributed to all shareholders of the company. Because the earning per share directly impact the investors; big number of earnings per share means big pay for the investors on the contrary small number of earnings per share means small pay for the investor. Earning per share is measured as followed:

$$\text{EPS} = \frac{\textbf{Net income available to shareholders}}{\textbf{Number of shares outstanding}}$$

Share Price

Horngren, Harrison and Oliver (2009)[12] defined stock as a document indicating ownership of corporation. The basic unit of stock is a share. The share price is the highest amount someone is willing to pay for the share, or the lowest amount that it can be bought for. Share price is volatile because it largely depends upon the expectations of buyers and sellers. (Menaje, 2015)[3]

Previous Research

Kabajeh, Nu'aimat and Dahmash (2012)[2] studied the partial and simultaneous relationship between the Return on Assets (ROA), Return on Equity (ROE) and Return on Investment (ROI) ratios with share prices of Jordanian Insurance Public Companies and later on found out that there is a significant statistical relationship between the ratios of ROA, ROE and ROI, simultaneously, with the Jordanian insurance public market share prices; no significant statistical relationship between the ROA ratio with market share prices; and low positive significant statistical relationship between the ROI variable and share prices. From regression analysis for the variables separately, the researchers noted that the ROA variable has the highest coefficient value, while the ROI variable has the lowest coefficient value.

Menaje (2012)[3] examined the impact of selected financial variables on share price of publicly listed firms in the Philippines then disregarded the possible effect of short-term changes in share price and earnings per share. The researcher also stated that return on assets would be a weak negative predictor and may be replaced with other appropriate financial or economic variables.

The analysis of return on assets and earnings per share on the stock market in the banking companies in Bursa Efek Indonesia by Silviana and Rocky (2013)[4] pointed out that variable which gives biggest influence on stock price is earnings per phare. Using multiple linear regression, the researcher found out EPS influence contribution level is 56.2% while ROA only has -0.45%.

Research Hypothesis

The hypotheses of this research are:
- H_1: Return on equity, return on assets and earnings per share have simultaneous effect toward share price of Food and Beverage companies listed on Indonesia Stock Exchange.
- H_2: Return on equity has partial effect toward share price of food and beverage companies listed on Indonesia Stock Exchange.

H$_3$: Return on assets has partial effect toward share price of Food and Beverage companies listed on Indonesia Stock Exchange.

H$_4$: Earnings per share has partial effect toward share price of Food and Beverage companies listed on Indonesia Stock Exchange.
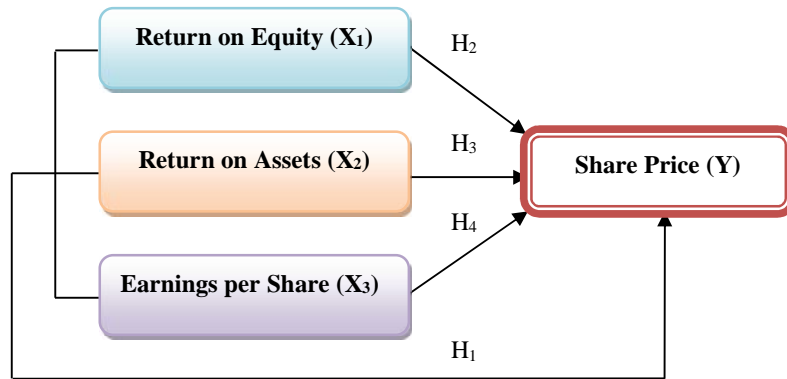
3. RESEARCH METHOD

Type of Research

This research uses causal type of research as this research investigates the effect of return on equity, return on assets and earnings per share toward share price.

Place and Time of Research

The research is conducted at Indonesia Stock Exchange from June to September 2015.

Conceptual Frameworks

Figure 1. Research Procedure
Source: Data processed, 2015

Population and Sample

Sekaran and Bougie (2009)[16] defined population as the entire group of people, events or things of interest that the researcher wishes to investigate; and a sample is a part of population. The population of this research is Food and Beverage companies listed on Indonesia Stock Exchange. As the sampling method, purposive sampling was used for this research; and the criteria are:

1. the company should be listed on Indonesia Stock Exchange during 2010-2014 at Food and Beverage subsector;
2. the company did not perform stock split during 2010-2014;
3. the company has published financial statement year 2010-2014;

Based on the criteria, Tri Banyan Tirta Tbk and Sekar Bumi Tbk are not included as the sample because those companies have just listed on IDX in 2012; Multi Bintang Indonesia Tbk is also not included as the company performed stock split in 2012.

Data Collection Method

This research was conducted with one source of data, which is the secondary data. According to Hair, et al (2007)[11] data used for research that is not gathered directly and purposefully for the project under consideration is the secondary data.

Data Analysis Method
Classical Assumptions

Multicollinearity

Black (2007)[8] stated that multicollinearity is when two or more of the independent variables of a multiple regression model are highly correlated. Hair, et al (2007)[11] acknowledged that multicollinearity can be identified by two measurements which are the tolerance value and the variance inflation factor (VIF is the inverse of the tolerance value).

Heteroscedasticity

Black (2007)[8] pointed out that heteroscedasticity is a phenomenon happened when the error variances are not constant. Webster (2013)[18] explained the heteroscedasticity happens when the variation in error terms around the regression line are not all the same for all values of X.

Normality

Humiang (2012)[19] explained that normality test aims to test the regression model whether the dependent variables with three independent variables have normal distribution or not. A histogram or P – P plot of the residual can help researcher to check normality assumption of the error term. The requirements are:
1. The P – P plotted residuals should follow the 45-degree line.
2. The points closely clustered about the 45-degree line while not exceeding the standardized residual.

Autocorrelation

Humiang (2012)[19] explained that autocorrelation test is used to test a linear regression model whether there is no correlation between the variables tested or not. If there is correlation, then there is a problem called autocorrelation which causes the constructed model to be not appropriate.

Multiple Regression Analysis Model

Anderson, Sweeney and Williams (2011)[6] noted that multiple regression analysis is the study of how a dependent variable y is related to two or more independent variable. The equation that describe how the dependent variable y is related to the independent variable $x_1, x_2, ..., x_p$ and an error term is called the multiple regression analysis. The formula of multiple regression analysis used for this research is

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:
- Y : Share price α : Intercept
- β_1 : The slope of Return on Equity variable e : Error
- β_2 : The slope of Return on Assets variable
- β_3 : The slope of Earnings per Share variable
- X_1 : Value of Return on Equity variable
- X_2 : Value of Return on Assets variable
- X_3 : Value of Earnings per Share variable

3. RESULT AND DISCUSSION

At first, the data analysis performed indicates problems in the regression model used for this research. Problems found are heteroscedasticity and autocorrelation. To fulfil the classical assumptions requirement, outliers were removed and data transformation was performed in all variables. The type of transformation used is Lg10.

Classical Assumptions
Multicolinearity Lg10 Model

<p align="center">Table   2. Multicollinearity Lg10 Model</p>

Model		Collinearity Statistics	
		Tolerance	**VIF**
1	(Constant)		
	lg10ROE	.273	3.663
	lg10ROA	.271	3.693
	lg10EPS	.856	1.168

a. Dependent Variable: lg10CP
Source: Data processed, 2015

Table 2 verifies that there is no multicollinearity issue in this regression model as tolerance value of lg10ROE, lg10ROA and lg10EPS are more than 0.02 (the minimum acceptance level of tolerance) the minimum level of tolerance; and Variable Inflation Factor (VIF) of lg10ROE, lg10ROA and lg10EPS are less than 10 (the maximum acceptance level of VIF value).
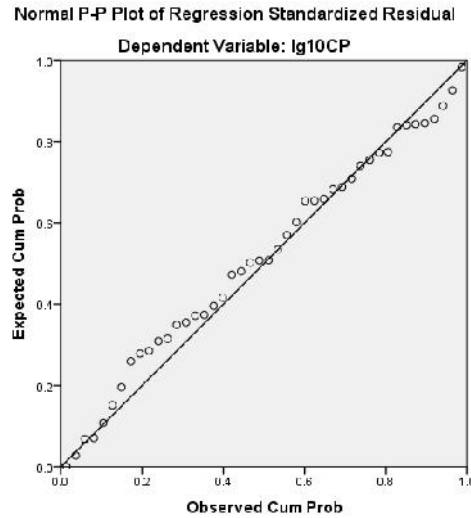
Heteroscedasticity Lg10 Model
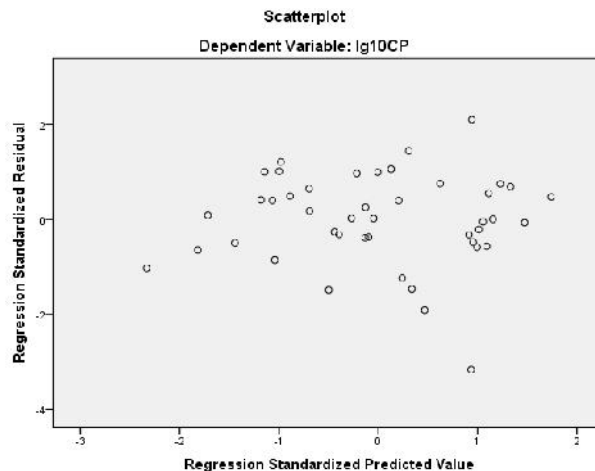
Graph 1. Heteroscedasticity Lg10 Model
Source: Data processed, 2015

The dots on graph 2 are not making a certain pattern as those are randomly spread. With no-clear pattern on the figure, it is confirmed that the regression model is free from heteroscedasticity.

Normality Lg10 Model

Graph 2. Normality Lg10 Model
Source: Data processed, 2015

The P-P Plot of log10 model shows the dots are scattered around the diagonal line. Therefore, this regression model fulfils the normality criteria.

Autocorrelation Lg10 Model

Table 3. Durbin-Watson Lg10 Model

Durbin-Watson
1.398

Source: Data processed, 2015

The 1.398 point of Durbin-Watson value in the Table 3 describes there is no definition of the autocorrelation as the number lies between d_U (1.3384) and d_L (1.6589). Therefore, runs test was performed in order to verify that the regression model for this research is free from auto-correlation.

Table 4. Runs rest Lg10 Model

	Unstandardized Residual
Total Cases	44
Asymp. Sig. (2-tailed)	.093

a. Median
Source: Data processed, 2015

The result of runs test verifies the regression model is free from auto-correlation since the Asymp. Sig. (2-tailed) numbered as 0.093, which is bigger 0.05. Based on tests performed, it can be concluded that the regression model used has no problem in classical assumption, which means the regression model can be used for the next analysis.

Multiple Regression Test Result

Table 5. The Result of Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.191	.341		3.493	.001
	lg10ROE	-.284	.495	-.077	-.573	.570
	lg10ROA	.519	.405	.173	1.280	.208
	lg10EPS	.967	.086	.854	11.256	.000

a. Dependent Variable: lg10CP

Source: Data processed, 2015

Multiple regression model is used to examine the influence of independent variables on the dependent variable. The multiple regression equation for this research, as computed by SPSS 21 is:

$$Y = 1.191 - 0.284X_1 + 0.519X_2 + 0.967X_3 + e$$

Where:

  Y   : Share Price
  X_1 : Value of Return on Equity variable
  X_2,   : Value of Return on Assets variable
  X_3 : Value of Earnings per Share variable
  e   : Error

The interpretation of the equation:

1. The value of constant ( ) is 1.191; it explains that if all independent variables are equal to zero, the Share Price (Y) is predicted to be 1.191.
2. In condition where the other variables are constant, an increase of one point in lg10 Return on Equity (X_1) will result in a decrease of lg10 Share Price (Y) by 0.284. This indicates that Return on Equity has negative effect on Share Price.
3. If the other variables are constant, a one point increase in lg10 Return on Assets (X_2) will lead a 0.519 increase of lg10 Share price (Y). This shows that the Return on Assets has positive effect on Share Price.
4. There will be a 0.967 increase of lg10 Share price (Y) if there is a one point increase in lg10 Earnings per Share (X_3) while the other variables are constant. This expresses Earnings per Share has positive effect on Share Price.

Hypothesis Testing

F- test (Simultaneous)

Table 6. F-Test Result

Model		F	Sig.
1	Regression	54.375	.000b
	Residual		
	Total		

a. Dependent Variable: lg10CP

b. Predictors: (Constant), lg10EPS, lg10ROE, lg10ROA

Source: Data processed, 2015

Ho is accepted and H1 is rejected if the $F_{count} < F_{table}$ and the   > 0.05.
Ho is rejected and H1 is accepted if the $F_{count} \geq F_{table}$ and the   0.05.

The result of F test shows that $F_{Count} > F_{Table}$ (54.375>2.84) and Sig F<5%. This means H_0 is rejected. Thus, the hypothesis that states return on equity, return on assets and earnings per share have simultaneous effect on share price of Food and Beverage companies listed on Indonesia Stock Exchange is accepted.

t-test (Partial)

Table 7. t-Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.191	.341		3.493	.001
	lg10ROE	-.284	.495	-.077	-.573	.570
	lg10ROA	.519	.405	.173	1.280	.208
	lg10EPS	.967	.086	.854	11.256	.000

a. Dependent Variable: lg10CP

Source: Data processed, 2015

H0 is accepted and H1 is rejected if the $t_{count} < t_{table}$ and the > 0.05.
H0 is rejected and H1 is accepted if the t_{count} t_{table} and the   0.05.

Using the level of significant of 0.05 (= 0.05) and Degree of Freedom (d_f)= 40, table 7 explains:
1. Return on equity (X_1) t_{count} (-0.573) < t_{table} (2.021) and the level of significant 0.570>0.05. Therefore H_2 is rejected and H_0 is accepted, those mean that return on equity has no significant effect on share price.
2. Return on assets (X_2) t_{count} (1.280) < t_{table} (2.021) and the level of significant 0.208<0.05. Therefore H_3 is rejected and H_0 is accepted, those mean that return on assets has no significant effect on share price.
3. Earnings per share (X_3) t_{count} (11.256) > t_{table} (2.021) and the level of significant 0.00<0.05. Therefore H_0 is rejected and H_4 is accepted, those mean that earnings per share has significant effect on share price.

Discussion

Based on the data analysis, return on equity has negative impact toward share price. This points out that when the return on equity rate is moving up, the share price will be moving down. This might be odd phenomena because higher return on equity would mean higher profitability of the company. As the return on equity is counted by dividing net income with total equity, this strange case might be caused by two factors. First, the shareholders' money is not efficiently used for generating profit. Second, the company may nurture itself with big debts. Even if it negatively affects the share price, return on equity of food and beverage companies listed on Indonesia Stock Exchange does not significantly affect the share price.

On the regression model, return on assets exhibits positively affects the share price. This means if rate of return on asset is increasing, there will be also an increase in share price. Yet, based on the t-test, return on assets is proven having no significant effect on the share price. It may insinuate that even though this ratio is needed to investors for the investment decision, the rate of return on assets is not as great as what have been expected. The lack of efficiency of the company in using the company's asset for making profit might be the cause.

Earnings per share are found to be having significant effect on share price. This suggests that as the value of earnings per share of food and beverage companies listed in Indonesia Stock Exchange increases, the share price of those company increases as well. The earnings per share is verified as an important point in investment decision process because earning per share directly impact the investors; big number of earnings per share means big pay for the investors on the contrary small number of earnings per share means small pay for the investor.

5. CONCLUSION AND RECOMMENDATION

Conclusion

The final conclusions of this research are:
1. Return on equity, return on assets and earnings per share have simultaneous effect on share price of Food and Beverage companies listed on Indonesia Stock Exchange.
2. Return on equity, partially, does not have significant effect on share price of Food and Beverage companies listed on Indonesia Stock Exchange
3. Return on assets, partially, does not have significant effect on share price of Food and Beverage companies listed on Indonesia Stock Exchange.
4. Earnings per share, partially, have significant effect on share price of Food and Beverage companies listed on Indonesia Stock Exchange.

Recommendation

This research recommends the following:
1. Investor should put earning per share on the top of their must-check points in making investment decision as the earning per share is proven having significant effect on the share price.
2. Food and beverage companies listed on Indonesia Stock Exchange should improve their return on equity, return on assets and earnings per share because those three ratios have been proved to have simultaneous effect on the share price.

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