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Effect of Return on Equity (ROE) and Earning Per Share (EPS) on the stock price of companies that are members of the infobank15 index on the Indonesia stock exchange

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Abstract. One of the approaches taken to predict stock prices was the fundamental approach. The problem raised in this study is the effect of Return On Equity (ROE) and Earning Per Share (EPS) on Stock Prices. This research was conducted with the aim to find evidence whether Return On Equity (ROE) and Earning Per Share (EPS) affect Stock Prices partially and simultaneously. This study uses data from companies that were included in the Infobank15 Index on the Indonesia Stock Exchange during certain period. The method used in this research was quantitative research methods. The analysis design used was multiple regression analysis, correlation analysis coefficient, and determinant analysis coefficient. Hypothesis testing using t-test and f-test. The results showed that partially Return on Equity (ROE) affected Stock Prices and Earning Per Share (EPS) affected Stock Prices. Simultaneously, Return On Equity (ROE) and Earning Per Share (EPS) had a significant effect on Stock Prices. The implication of this research is to provide input to investors in analyzing Stock Prices.

1. Introduction

The current economic conditions, both nationally and globally, are in a difficult situation along with the Covid-19 pandemic. Indonesia's economic growth in the third quarter compared to the third quarter of 2019 experienced a growth contraction or grew negatively by 3.49 percent (y-on-y) and Indonesia's economic growth in the second quarter compared to the second quarter of 2019 experienced a growth contraction or grew negatively by 5.32 percent (y -on-y) [1]. This weak economic growth has affected investment in the capital market. For companies, the capital market is one way to obtain funds from outside the company. The stock price is one of the considerations for investors in investing in the capital market. Stock is proof of participation as owner in a company [2]. The higher the stock price, the higher the company value and the higher the investor's confidence in the company that issues shares [3]. In

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conducting analysis and selecting stocks, there are two basic approaches that we can take, namely technical analysis and fundamental analysis. Fundamental analysis is an analysis that takes into account various factors such as company performance, business competition analysis, industry analysis, economic analysis and market analysis. We can measure company performance indicators by looking at the company's financial ratios. Financial ratios can be used by investors as a tool to assess the company's financial condition and financial performance. If there are good prospects for these financial ratios, investors will be interested in shares and the price will increase [4]. The ratio used by researchers in this study is the ratio of Return On Equity (ROE) and Earning Per Share (EPS).

Return on Equity (ROE) is a ratio that examines the extent to which a company uses its resources to be able to provide a return on equity [5]. An increase in Return on Equity (ROE) is accepted by the market as a good signal that provides positive input for investors in making decisions to buy shares and this makes stock demand increase so that stock prices will rise [4]. This is supported by research conducted by Yusuf, Surahmat, and Rahayu [6], Dermawan Wijaya [7] and Haryetti [8] which state that Return On Equity (ROE) affects stock prices. Earning Per Share (EPS) is the ratio between net income after tax and the number of shares [9]. The higher the Earning Per Share (EPS) of a company, the more investors will buy the shares, causing the stock price to rise [10]. This is supported by research conducted by Seetharaman [11], Dewi and Suaryana [12] and Ridho Dwinurcahyo and Mahfudz [13] which state that Earning Per Share (EPS) affects stock prices. What distinguishes between the research I have done with other research is the financial data it uses, where the authors use financial report data from the 2015-2019 period.

This study aims to determine the effect of Return On Equity (ROE) and Earning Per Share (EPS) on Stock Prices simultaneously and to find out how much influence Return On Equity (ROE) has on share prices partially and also the effect of Earning Per Share (EPS) on Share price partially.

This research was conducted on banking companies in Indonesia that are members of the Infobank15 index on the Indonesian stock exchange during the 2015-2019 period. This research was conducted with a verification method using a quantitative approach where the sampling technique used purposive sampling and the data used were secondary data. The analysis method used is multiple regression analysis, correlation coefficient analysis, determination coefficient analysis and hypothesis testing.

2. Method

The research method used in this research is the verification method using a quantitative approach. The verification method with a quantitative approach is used to test how much influence the Return On Equity (ROE) and Earning Per Share (EPS) variables have in affecting the stock price. The population in this study are companies that are members of the Infobank15 index on the Indonesia Stock Exchange, totaling 15 companies, then samples are taken based on the consideration of certain criteria (purposive sampling) with the criteria being Government / Regional Banks and Banks that have Return On Equity (ROE) data, Complete Earning Per Share (EPS) and Share Prices during 2014-2019 in order to obtain a sample of 5 companies. The data used in this study is secondary data in the form of corporate financial reports for the last five years, where I obtained this data from the financial reports of companies that are on the Indonesian stock exchange. The analysis method used is multiple regression analysis, correlation coefficient analysis, determination coefficient analysis and hypothesis testing. Partially testing the hypothesis using the t test and simultaneously testing the hypothesis using the F test. Operational variables used can be seen in table 1.

Table 1. Operationalization of Variables

1.1.1. **Variable**	***1.1.2.*** **Variable Concept**	***1.1.3.*** **Size**	***1.1.4.*** **Scale**
1.1.5. Return On Equity (ROE)	***1.1.6.*** Ratio that examines the extent to which a	***1.1.8.*** ROE = Net Income / shareholder Equity	***1.1.9.*** Ratio

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1.1.1. Variable	*1.1.2.* Variable Concept	*1.1.3.* Size	*1.1.4.* Scale
	company uses its resources to be able to provide a return on equity		
1.1.10. Earning Per Share (EPS)	*1.1.7.* *1.1.11.* Profits given to shareholders for each share purchased	*1.1.12.* EPS = Earning After Tax / Total Common Stock Outstanding	*1.1.14.* Ratio
1.1.15. Stock Price	*1.1.16.* The price of a share on the current market on the stock exchange	*1.1.13.* *1.1.17.* Judging from the stock market price	*1.1.18.* Ratio

Research Hypothesis:
H1: Return On Equity (ROE) affects the stock prices
H2: Earning Per Share (EPS) affects the stock prices
H3: Return On Equity (ROE) and Earning Per Share (EPS) simultaneously affect the stock prices

3. Results and Discussion

In conducting this research, the authors use the SPSS 26 software as a tool to perform statistical analysis. The results of this test can be seen in the table below.

Table 2. Result of Testing the Return On Equity (ROE) and Earning Per Share (EPS) Againts Stock Price

Independent Variables	Coefficient	t_statistics	Prob	Conclusion
C	9654.590	4.928	0,000	Ho rejected the sign. On α = 0.05
Return On Equity (ROE)	-455.733	-4.394	0.000	Ho rejected the sign. On α = 0.05
Earning Per Share (EPS)	8.334	6.219	0.000	Ho rejected the sign. On α = 0.05
F-statistic Adjusted R Square	26.699 0.682		0.000	Ho rejected the sign. On α = 0.05

Based on the data in table 2 above, a regression equation is obtained with the following model Y = 9654,590 - 455,733 X1 + 8,344 X2, The value of this equation means that Return On Equity (ROE) = -455,733, meaning that every 1 percent increase in the Return On Equity (ROE) ratio, the stock price will decrease by 455,733 and Earning Per Share (EPS) = 8.334, meaning that every 1 percent increase in the Earning Per Share ratio, the share price will increase by 8,334.

Based on the data in table 2 above, the value of Adjusted R Square is 0.682, which means that 68.2 percent change in the dependent variable, namely the stock price is influenced by independent variables consisting of Return on Equity (ROE) and Earning Per Share (EPS), while the rest is influenced by variables other.

Based on the results of the F-statistic test found in table 2 above, it is found that an F count is 26,699 and a probability value of 0.000, which means that Return On Equity (ROE) and Earning Per Share (EPS) simultaneously have a significant effect on stock prices.

Based on the results of the t-statistic test shown in table 2 above, the t count for Return On Equity (ROE) is -4,394, where the t-value is greater than the t-table value, which is 2.05 (-4,394 > -2.059). The probability value of Return On Equity (ROE) is 0.000, this value is smaller than the significance level of 0.05, so it can be concluded that the H_O hypothesis is rejected, which means that Return On Equity (ROE) partially has a significant effect on stock prices. The value of the regression coefficient for Return On Equity (ROE) is -455,733, this indicates that Return On Equity (ROE) has a negative effect on stock prices.

Return On Equity (ROE) is the most important ratio, if the value is good and stable it will make the stock price high. The Return On Equity (ROE) ratio shows the rate of return on equity. When an investor makes an investment, of course he expects a return on what he has invested. This ratio illustrates how well the company can return what has been invested by these investors. Therefore, the higher the ROE, the more attractive investors will be and lead to an increase in the stock price. The results of this study are in accordance with the results of studies conducted by Yusuf, Surahmat, and Rahayu [6] and Dermawan Wijaya [7], and Haryetti [8].

Based on the results of the t-statistic test shown in table 2 above, the t count for EPS is 6,219 where the t-value is greater than the t-table value, which is 2.05 (6,219 > 2,059). The probability value of Earning Per Share (EPS) is 0.000, this value is smaller than the significance level of 0.05, so it can be concluded that the H_O hypothesis is rejected, which means that partially Earning Per Share (EPS) has a significant effect on stock prices. The value of the Regression Coefficient for Earning Per Share (EPS) is 8.334, this indicates that Earning Per Share (EPS) has a positive effect on stock prices.

Earning per share (EPS) is a description of a company's ability to generate profits per share for its owners. Earning per share (EPS) is a reference for investors in investing. With Earning per share (EPS), investors will know the amount of profit growth a company has achieved on the number of company shares. The greater the company's ability to generate profits per share, the better the company's performance. Improved company performance caused by Earning per share (EPS) can affect the Company's share price. This shows that an increase in Earning Per Share (EPS) will be followed by an increase in Share Prices. The results of this study are in line with the research of Seetharaman [11], Dewi and Suaryana [12] and Ridho Dwinurcahyo and Mahfudz [13,14]

4. Conclusion

From the results of this study, it is known that the Return On Equity (ROE) affects stock prices. The results of this research support the theory put forward by Brigham, where the stock price will be high if the Return on Equity (ROE) is good and continues stably. When an investor makes an investment, he certainly expects a return on what has been invested. This ratio illustrates how well the company can return what has been invested by these investors. The higher the Return On Equity (ROE), the more it will attract the attention of investors and lead to an increase in the company's share price. Besides that, Earning Per Share (EPS) also affects stock prices. Earning Per Share (EPS) Describes the success of management in obtaining profits for company owners. The more a company's Earning Per Share (EPS) increases, the more the company's stock price will be.

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