IRJEMS International Research Journal of Economics and Management Studies
Published by Eternal Scientific Publications
ISSN: 2583 – 5238 / Volume 3 Issue 5 May 2024 / Pg. No: 37-40
Paper Id: IRJEMS-V3I5P106, Doi: 10.56472/25835238/IRJEMS-V3I5P106

Original Article

Interpretation of Stock Price Variables with the Influence of the Company's Profitability

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Received Date: 12 April 2024 Revised Date: 24 April 2024 Accepted Date: 30 April 2024 Published Date: 13 May 2024

Abstract: *The objective of this research is to ascertain the concurrent and partial impact of profitability variables with ROA, ROE, EPS and NPM Proxies on the share prices of food and beverage sector manufacturing companies listed on the IDX from 2020 to 2022. This research method uses quantitative analysis with secondary data processing analysis sourced from www.idx.co.id. The data analysis techniques used are multiple linear regression analysis, t-test, F test, and coefficient of determination (R^2). Data processing using the SPSS application, then the results of regression analysis of profitability variables for ROA, ROE and EPS ratios have a significant effect on stock prices and NPM variables do not have a significant effect on stock prices. But together all profitability variables for the ratio of ROA, ROE, EPS and NPM have a significant effect with a significance of 0.049%. The coefficient of determination shows that the model has an effect of 76%.*

Keywords: *Stock Price; Profitability; Management; Finance; Company.*

I. INTRODUCTION

The company's development in Indonesia over the past few years has experienced significant growth (Nur & Utama, 2023). The main impetus behind this development is globalization and technological progress (Sudirjo et al., 2024). The companies continue to expand internationally. This allows them to operate in different countries and obtain greater business opportunities (Utama & Efrina, 2023). In addition, technological developments such as the internet and mobile banking have opened the door to faster, more efficient, and more accessible financial services for the public. This encourages financial companies to continue to innovate and adapt to the latest technology trends in order to maintain the company's competitiveness (Istan, 2021).

Successful companies must be able to achieve a high level of profitability because they can manage risk well and are able to take advantage of market opportunities (Wahyudi, 2020). Profitability is one of the main parameters measured by the company. The rate of profit earned can come from various sources, such as interest generated from loans, commissions on financial transactions, or investment returns (Xiao & Tao, 2021). In addition, the company also focuses on developing appropriate business strategies, including diversification of products and services, to diversify revenue and reduce risk (Reuschke & Mason, 2022). In an effort to increase profitability, companies often optimize their cost structures through operational and marketing efficiencies (Farooq et al., 2023).

Profitability is an important indicator to measure the performance of a company that focuses on the company's ability to earn *income* in the company's operations by utilizing its assets (Hidayat, 2021). Good profitability is one of the indicators of a company's success. In this study, profitability is used as a measure of company performance (Utama & Syarif, 2023). The company's activities and operations are to achieve maximum profitability. Profitability is important for companies because profitability is used to measure the effectiveness of the company in generating profits by utilizing the assets it has.

Profitability is the ability to generate and obtain profits effectively and efficiently (Sari & Batubara, 2020). The profitability used is ROA, ROE, EPS and NPM because it can take into account the ability of company management to manage its assets to generate income. The greater the profitability of the company, the greater the level of profit achieved by the company and the better the company's position in terms of asset use. This shows that high profitability will increase the company's ability so that it will make an increase in its stock price (Qosim & Trisnaningsih, 2021). When making decisions, investors increasingly depend on knowledge of profitability statistics (Swathi, 2022). As demonstrated by the company's profitability, the evolution of stock prices is inextricably linked to the evolution of the company's performance. (Pride et al., 2019). Rhetorically, if the company's performance increases, the stock price will reflect it with an increase in stock price, and vice versa. With increased profitability, stock prices tend to rise, while when profits decrease, stock prices also fall (Cardao-Pito, 2021).

Profitability is a ratio that indicates a company's ability to earn profit. The profitability ratio variables studied are four ratios, namely ROA, ROE, EPS and NPM. Return on Assets (ROA) is used to measure the return on total assets after interest and taxes (Al Umar & Nur Savitri, 2020). The management's capacity to use firm assets to generate profits is demonstrated by the return on total assets or total investment (profitability). The measure of a company's capacity to produce profits that investors can get is called return on equity (ROE) (Sunaryo, 2022). The EPS ratio provides an overview of the company's ability to generate net profit in each share. EPS has a strong influence on stock prices, and when EPS increases, the stock price also increases, and vice versa. The NPM ratio is used to measure how much net profit can be obtained from each rupiah of company sales. This NPM ratio is also useful for measuring the level of efficiency of total expenses in the company; the more efficient a company is in spending its costs, the greater the level of profit that the company will obtain.

In this study, researchers chose manufacturing companies as the sample studied because manufacturing companies are companies that have a wide scope and are also stable in the face of economic changes. Based on this, researchers are interested in conducting research to find out whether there is an effect of profitability on stock prices in manufacturing companies on the IDX from 2020 to 2022. This study intends to investigate the impact of the profitability ratio on stock price in the food and beverage manufacturing companies listed on the IDX from 2020 to 2022, based on the proposed solution to the issue above.

II. RESEARCH METHODS

This study used quantitative methods. The quantitative method is an approach in research related to the collection and analysis of numerical data to produce information that can be measured and studied objectively (Syahputri et al., 2023). The population is the whole studied events, or events that are of concern to researchers to study. The population used as a sample frame for this study is all manufacturing companies that have gone public in Indonesia listed on the Indonesia Stock Exchange during 2020 to 2022 as many as 126 manufacturing companies in the food and beverage sector. The sample is the part of the population that consists of elements that are expected to have characteristics that are representative of the population. The sample of companies used in the study was selected by purposive sampling (Nikolopoulou, 2022), where the sample selected is in accordance with predetermined criteria, namely the criteria of manufacturing companies engaged in food and beverages. There are as many as 29 companies.

The variable used is found using the following formula:

1. ROE = (Net profit after tax/Equity) x 100%
2. ROA = (Profit before tax/Total capital (assets)) x 100%
3. EPS = (Net profit after tax/number of shares) x 100%
4. NPM = (Net profit after tax/ sales) x 100%

After obtaining ROE, ROA, EPS and NPM numbers, quantitative methods are carried out using multiple analysis techniques. The multiple regression technique is one of the statistical methods used to measure the relationship between one dependent variable and two or more independent variables. In multiple regression, the dependent variable is described by an independent variable that is used as a predictor. Multiple regression analysis is often used in the social sciences, economics, and business to understand and predict relationships between interrelated variables (Sugiyono, 2020). The form of the multiple regression equation is as follows:

$$\text{Harga Saham} = \beta 0 + \beta 1(\text{ROE}) + \beta 2(\text{ROA}) + \beta 3(\text{EPS}) + \beta 4(\text{NPM}) + \varepsilon$$

Where:
- Stock Price = Dependent variable (the variable you want to predict)
- ROE, ROA, EPS, NPM = Independent variable (the variable that affects stock price)
- $\beta 0$, $\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$ = Regression coefficient to be estimated
- ε = Random error

The next step is the analysis of the results to determine the significance of the independent variable to the stock price. By looking at the value of the coefficient (β) and p-value of each variable. Then, evaluate the model by evaluating how well the multiple regression model as a whole explains stock price variation using the R-squared metric (R^2). The coefficient of determination (R2) is to determine the degree of influence in the form of the percentage of independent variables ROA (X1), ROE (X2), EPS (X3) and NPM (X4) on the dependent variable stock price (Y).

This study used the SPSS application to estimate parameters (coefficients) in regression models (Ghozali, 2017).

III. RESULTS AND DISCUSSION

A) Result

The results of the regression analysis show that the profitability ratio of the variables ROA, ROE and EPS has a significant effect on stock prices. Based on the results of regression analysis, it is known that the significance value of the ROA variable is 0.04. The significance figure is 0.04 < 0.05, which explains that ROA has a significant effect on the stock price because it is smaller than Alpha 0.05. Then, it is known that the significance value of the ROE variable is 0.02. The significance figure is 0.02 < 0.05, which explains that ROE has a significant effect on stock prices. Furthermore, the variable significance value of EPS is 0.00. The significance figure is 0.00 < 0.05, which explains that EPS has a significant effect on stock prices. The significance of the NPM variable shows 0.122, and the significance of 0.122 > 0.05. has no significant effect on the stock price.

Simultaneously, the variables ROA, ROE, EPS and NPM show a significance of 0.049. The significance figures of 0.049 < 0.05 which show that simultaneously, profitability has a significant effect on stock prices. Then, the coefficient of determination shows a number of 0.76, which indicates the magnitude of the influence of the X variable model on Y by 76% (high).

B) Discussion

The relationship between ROA, ROE, and EPS to stock prices is complex and can be influenced by a variety of other factors, such as market, industry, and economic conditions. However, in general, companies with good financial performance tend to have higher stock prices because investors believe that the company has good growth potential and profitability. In the world of economics and finance, the NPM variable, which stands for Net Profit Margin is one of the factors that are often considered in analyzing the performance of a company. However, it is possible that the NPM variable does not have a significant effect on stock prices, especially in situations where other factors are more dominant in influencing stock price fluctuations.

Some reasons why variable NPM may not have a significant influence on stock prices include:

1. External Factors: Stock prices are influenced by various external factors such as market conditions, government policies, global economic conditions, and political factors. In situations where such factors predominantly affect the stock price, the NPM variable may not have a significant influence.
2. Market Focus: Investors may pay more attention to other factors such as earnings growth, liquidity, or other fundamental factors than NPMs in making investment decisions. This can make the NPM variable not so significant in determining stock prices.
3. Inaccurate Forecasts: Sometimes, companies may have high NPMs but are unable to sustain that performance in the long run. This can result in stock price variations that are not fully correlated with NPM variables. Thus, although NPM is theoretically an important indicator in measuring the profitability of a company, it is possible that this variable does not have a significant influence on stock prices in a particular context. Therefore, investors and analysts need to consider other factors as well as conduct a holistic analysis in making investment decisions.

IV. CONCLUSION

This study concludes that in food and beverage sector manufacturing companies listed on the IDX from 2020 to 2022, the level of profitability almost mostly has a significant effect on stock prices, namely ROA, ROE and EPS. Then only one ratio that does not have a significant effect on stock prices is the NPM ratio. Simultaneously, ROA, ROE, EPS and NPM have a significant effect. Then, the coefficient of determination shows a number of 0.76, which indicates the magnitude of the influence of the X variable model on Y by 76% (high).

Suggestions in this study on how Return on Equity (ROE), Return on Assets (ROA), and Earnings Per Share (EPS) affect the stock price of a company. Regression analysis can be used to determine the extent to which all three factors contribute to stock prices. For future research, it is hoped that researchers can investigate other factors that influence the relationship: In addition to ROE, ROA, and EPS, other possible factors also affect stock prices. Research can consider factors such as liquidity, leverage, and company size to see if there are more complex relationships among these variables. Then research can be focused on a specific industry or sector to see if the relationship between ROE, ROA, and EPS with stock prices varies depending on the context of that industry. This can provide deeper insight into the factors that affect stock prices in specific contexts.

Although it has been mentioned that Net Profit Margin (NPM) does not affect stock prices, further research can be done to see if other factors moderate or change the relationship between NPM and stock price. This can provide a more comprehensive understanding of the factors that affect stock prices.

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