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**THE EFFECT OF RETURN ON EQUITY, EARNING PER SHARE, AND DEBT TO TOTAL ASSET RATIO ON STOCK PRICE IN INDUSTRY LISTED ON IDX**

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**Abstract**

The research objective is to determine the effect of ROE, EPS, and DAR on stock prices. This study took a sample of the ceramic, porcelain, and glass sub-sector industrial companies listed on the IDX with an observation period from 2015-2019. The analytical method uses quantitative descriptive with secondary data obtained from the Indonesia Stock Exchange. Data collection using the documentation method. The data analysis technique used is multiple regression. The results of this study indicate that there was a simultaneous significant influence between EPS, ROE, and DAR variables on stock prices in the ceramic, porcelain, and glass sub-sector industry. The EPS variable had a partially significant effect on stock prices, while the ROE and DAR variables did not have a partially significant effect on stock prices.

**Keywords : ROE, EPS, DAR & Stock Prices**

**PENDAHULUAN**

Stock investment decisions involve the process of analyzing a company's financial statements that socialize its shares through the capital market. Based on the analysis of these financial statements, it can be seen that the company's ability to carry out its company activities. The ratios presented in the financial statements are able to show aspects of the company's performance that need further evaluation and analysis. To find out the income available to company owners on invested capital from within the company can be measured using Return on Equity (ROE) analysis. Meanwhile, to find out or measure the net income generated by the company, each share purchased by investors is measured using Earning per Share (EPS) analysis. EPS or earnings per share is the level of net profit for each share that the company can achieve when carrying out its operations. EPS is obtained from the profit available to ordinary shareholders divided by the average number of ordinary shares outstanding. In addition, investors must measure the amount of debt used by a company with a Debt to Total Asset (DAR) analysis.

The stock price offered to investors can be influenced by conditions of inflation, interest rates and other things, but it is also strongly influenced by fundamental factors, namely financial ratios that reflect the company's financial performance. If the listed company has healthy financial ratios, investors will be more interested in investing their funds in the form of buying shares. This will automatically affect the increase in stock prices, so that stock prices can be an indicator of the company's success in buying and selling transactions on the capital market. Investors who are not satisfied with the company's financial performance will consider selling their shares and investing in other companies so that the stock price has the opportunity to fall. Through an analysis of the factors that affect the stock price, it can provide clear information on the advantages possessed by a share and as a basis for determining investment activities to be carried out. One of the industry that have sold securities in the capital market or have gone public is the ceramic, porcelain, and glass sub-sector industry. The industry in this sector is actually a sector that has interesting prospects going forward in line with the development of

the property industry in Indonesia. However, the ceramics, porcelain, and glass industry are only supporting other industry, so that market players are less interested in company shares.

The financial conditions of several ceramics, porcelain, and glass industry were reported to have experienced financial distress during 2015-2019 and were predicted to be bankrupt. One of the main triggers is the reduction in domestic gas supply from 75% to only 30% for the ceramic, porcelain, and glass industry since 2015, so that the industrial production costs have increased by an average of 15% due to the increase in gas import costs. Some companies were forced to rely on increased debt to finance production activities so that the survival of the company can be maintained. Automatically, the selling price to consumers also increases, while the industry's profit margin is decreasing. This condition causes the demand for shares in the ceramic, porcelain, and glass industry to decline and stock prices to plummet.

## LITERATURE REVIEW

**Stock price** according to (Tandelilin, 2010), is a "reflection of investors' expectations of the earning factors, cash flow and the level of return required by investors, where these three factors are also strongly influenced by macroeconomic performance."

**Earning per Share (EPS)** or Income per share is a ratio that describes the amount of profit that will be obtained from each share owned. EarningPer Share refers to the net profit obtained from each common share outstanding in a certain period, (Syamsuddin, 2011).

**Return on Equity (ROE)** is a ratio that describes the company's ability to generate returns to shareholders on capital invested in the company. The higher this ratio reflects the company's acceptance of good investment opportunities and effective management (Syamsuddin, 2011).

**Debt to Total Asset Ratio (DAR)** is a ratio that measures how much debt-financed company assets are. (Brigham & Houston,

2011) said that "this ratio is a comparison of total debt, namely current debt and long-term debt to total assets owned by the company".

## METHODOLGY

This study uses secondary data with the object of research on the financial statements of the Ceramics, Porcelain and Glass Sub-Sector companies for the period 2015 to 2019 which are listed on the IDX. The data source comes from financial reports which can be accessed through the website <http://www.idx.co.id>. Data collection techniques use documentation, namely studying and copying notes or documents related to the required data in the form of corporate financial reports including balance sheets and income statements, sourced from the Indonesian Capital Market Directory (ICMD) and the official website of the IDX. The data analysis used is the classical assumption test, multiple linear analysis and Hypothesis Test.

## RESULT AND DISCUSSION

### Classic Assumption

#### *Multicollinearity*

The following will present the results of the multicollinearity test carried out with the help of SPSS for windows, the complete results can be seen in the table 1.

**Table 1. Multicollinearity**

Variable	VIF	Tolerance
EPS ( $X_1$ )	1,270	0,721
ROE ( $X_2$ )	1,119	0,755
DTA ( $X_3$ )	1,144	0,817

*Source: Output SPSS*

If the condition for the absence of multicollinearity is a VIF value around the number 1 and a tolerance value close to 1, then all independent variables in the regression model have passed the multicollinearity test. This means that there is no perfect linear correlation between the independent variables in the regression model.

#### *Autocorrelation*

The following will present the results of the autocorrelation test carried out with the help

of SPSS for windows, the complete results can be seen in the table 2.

**Table 2. Autocorrelation**

Variable	Value	Durbin Watson (DW)
EPS (X <sub>1</sub> )	1,729	Non Autocorrelation
ROE (X <sub>2</sub> )		
DTA (X <sub>3</sub> )		
Stock Price (Y)		

Source: Output SPSS

If the condition for the absence of autocorrelation is a DW value between -2 to +2, then the regression model does not contain autocorrelation. This means that there is no confounding error variant in the use of the t test and the F test in multiple linear regression.

### Multiple Linear Regression

Multiple linear regression analysis in this study produces a regression equation. The equation below can be interpreted as follows:

$$\text{Stock price} = -1.269,522 + 8,537\text{EPS} + 45,531\text{ROE} + 38,618 \text{DAR}$$

A constant value of -1.269,522 means that if investors do not have any information about ROE and DAR at all, then the stock price will tend to experience a constant decline in an average of 1.269,522. Thus, the company's annual report absolutely displays the value of ROE, ROE and DAR so that stock prices do not decline. The regression coefficient value of the EPS variable (X<sub>1</sub>) is 8.537, meaning that for each additional ROE value, it will move the company's stock price up by an average of 8.537. The regression coefficient value of the ROE variable (X<sub>2</sub>) is 45.531, which means that each additional ROE value will move the company's stock price up by an average of 45.531. The regression coefficient value of the DAR variable (X<sub>3</sub>) is 38.618, meaning that every one additional DAR value is added, it will move the company's stock price up by an average of 38.618.

The following shows the results of testing using multiple linear regression analysis with the help of SPSS for windows, these results can be seen in the table.

**Table 3. Multiple Linear Regression**

Variable		Coefficient	t-Hit	Sig.
Indepen dent	Depen dent	Regressi on		
Constant	Stock Price	-	1,31	,06
EPS (X <sub>1</sub> )	(Y)	2 8,537	9	8
ROE (X <sub>2</sub> )		45,531		
DAR (X <sub>3</sub> )		38,618	16,2	,00
			61	0
			1,11	,24
			4	1
			1,46	,12
			3	2

t<sub>Table</sub> = 3,232  
 F<sub>Hit</sub> = 84,642  
 F<sub>Table</sub> = 2,830

Source: Output SPSS

F test Based on the information in Table 3, it is known that the F-count value is 84.642; while the F-table value is known to be 2.830; so that F-hit > F-table. Furthermore, the significance value is 0.000; so that it does not exceed the set error limit of 0.05. Thus it can be stated that H<sub>0</sub> is rejected and H<sub>a</sub> is accepted, which means that there is a simultaneous influence between the variables EPS (X<sub>1</sub>), ROE (X<sub>2</sub>), and DAR (X<sub>3</sub>) on the Stock price (Y) in the ceramics, porcelain and glass sub-sector industry on Indonesia Stock Exchange.

T-test Based on the information in Table 3, it is known that the t-value of the EPS variable (X<sub>1</sub>) is 16.261; ROE variable (X<sub>2</sub>) of 1,114; and variable DAR (X<sub>3</sub>) of 1.463; while the t-table value is known to be 3.232. Furthermore, the significance value of the EPS variable (X<sub>1</sub>) is 0,000; ROE variable (X<sub>2</sub>) of 0.241; and DAR variable (X<sub>3</sub>) of 0.122; while the set error limit is 0.05. Thus, only the EPS variable has t-hit > t-table and a significance value does not exceed 0.05, but the ROE and DAR variables have t-hit < t-table and a significance value exceeding 0.05. This means that the EPS variable has a partially significant effect on stock prices in the ceramic, porcelain, and glass sub-sector industry on the Indonesia Stock

Exchange (IDX), while the ROE and DAR variables do not have a partially significant effect on stock prices in the sub-industry of ceramics, porcelain and glass sector on the Indonesia Stock Exchange (IDX).

### Discussion

The results of the F-test and T-test show that the variables EPS, ROE and DAR simultaneously affect stock prices in the ceramic, porcelain, and glass sub-sector industry on the Indonesia Stock Exchange (IDX), these results are in line with research (Pratama & Erawati, 2014), (Rahayu, Suwendra, & Yulianthini, 2016), and (Tumandung, Murni, & Baramuli, 2017). In addition, it is also known that partially only the EPS variable has an effect on stock prices, while the ROE and DAR variables do not have a significant effect on stock prices in the ceramic, porcelain and glass sub-sector industry on the Indonesia Stock Exchange (IDX). Therefore, the EPS variable can be stated to have a dominant influence on stock prices in the ceramic, porcelain and glass sub-sector industry on the Indonesia Stock Exchange (IDX).

According to (Widiatmojo, 2005) stock prices are formed because of the supply and demand for these stocks, one of which is influenced by the perceptions circulating of each investor, according to the information they have. Important information that is considered objective for investors is financial ratios because financial ratios can describe the

Performance and level of the financial health of the company. According to (Husnan, 1999) profit ratio, debt ratio and profitability ratio are the main financial ratios commonly used by investors to assess the performance of a company. This is because the profit ratio can provide an overview of whether the company is able to provide net income to investors as expected, the debt ratio can provide an idea for investors whether the company is able to fulfill its obligations on its bonds, so that the company's survival is more secure, while the profitability ratio can provide an idea of

whether the company able to work consistently to return the asset value according to the time expected.

Based on this opinion, the financial ratios of EPS, ROE and DAR are important ratios that need to be considered in the decision to buy shares in a go public company. Of the three ratios, EPS is the ratio most considered by investors, so that partially the effect of EPS on stock price movements is quite significant. Investors are generally interested in knowing the net earnings per share they buy, so that investments can be more easily assessed as profitable or not in the short term. However, the ROE and DAR variables are also very important as a consideration for certain investors who want to buy shares in large numbers, so that the company's survival in the future is considered more than short-term profits, especially the DAR variable.

According to (Husnan's 1999) the DAR ratio is a ratio that measures the percentage of use of funds originating from creditors. This ratio can give investors an idea of the percentage of funding that comes from shareholder equity. This means that the higher the DAR, the higher the ratio of debt to total assets and the greater the risk of profit; conversely, the lower this ratio, the lower the financial risk. When the DAR value is high, it means that at the same time many company shares are being sold at a higher value, so the stock price is automatically high. However, it should be noted that if the DAR ratio is too high, it means that the company owners are too brave to speculate because the share of their own capital involved in the business is very limited. This kind of condition is less liked or avoided by investors, so that stock price movements will tend to fall in the next period. This reason is why the DAR ratio is very sensitive to the fluctuation of stock price movements in the ceramic, porcelain and glass sub-sector industry on the IDX.

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**CONCLUSION**

- a) There is a significant effect simultaneously between the variables Return on Equity, Earning per Share, and Debt to total Asset Ratio on the Stock price in the ceramic, porcelain, and glass sub-sector industry on the Indonesia Stock Exchange (IDX).
- b) The Earning per Share variable has a partially significant effect on stock prices, while the Return on Equity and Debt to total Asset Ratio variables do not have a partially significant effect on stock prices in the ceramic, porcelain, and glass sub-sector industry on the Indonesia Stock Exchange (IDX).

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