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Bank Stock Prices on the Indonesia Stock Exchange: Do Profitability and Valuation Ratios Matter?

Aninda Eka Setiana[1], Sri Wiranti Setiyanti [2], Ariyani Indriastuti [3]
[1,2,3] Sekolah Tinggi Ilmu Ekonomi Semarang, Semarang, Indonesia

Corresponding email: ariyanindr@gmail.com

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Abstract. The stock price reflects the value of a company traded in the capital market and represents investors' perspectives on the company's performance and prospects. This study aims to analyze the influence of profitability ratios, specifically Return on Assets (ROA) and Return on Equity (ROE), as well as the valuation ratio, Earning Per Share (EPS), on the stock prices of banking companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The study uses data from 35 companies selected through purposive sampling, with data analysis conducted using multiple linear regression. The results indicate that ROA and ROE do not have a significant impact on stock prices, while EPS shows a significant influence.

Keywords : Stock Prices; Return on Asset; Return on Equity; Earning Per Share

INTRODUCTION

A company is an organization that integrates various resources to produce goods or services with the goal of generating profit. Banks, as a type of company, play a role in managing public finances through activities such as credit, savings, and loans, aimed at improving the standard of living of society. Generally, the primary objective of establishing a company is to maximize the owner's profit through returns on investment reflected in the company's value or present value.

One of the most common forms of company capital is shares, which can be traded and transferred according to the owner's agreement. Like other traded commodities, shares have prices that fluctuate, influenced by capital market dynamics and the company's quality. The share price represents the value set by a company for parties or entities seeking ownership in the company (Wardhani; et al., 2022).

In the capital market, a common phenomenon is the uncertainty in determining whether a particular share price is good or bad. This prompts investors to analyze and compare the factors influencing share prices. These factors are broadly categorized into external factors, such as government policies, exchange rates, and central bank policies, and internal factors, which include corporate management and actions reflected in various financial ratios.

These ratios include profitability ratios, which are used to measure a company's effectiveness in generating profits from its assets or equity. One of these ratios is Return on Assets (ROA), which measures the return from the total assets used by the company. ROA is calculated by comparing earnings before interest and tax (EBIT) to total assets. Another profitability ratio is Return on Equity (ROE), which shows how much profit is generated from shareholders' equity. ROE is calculated by comparing net income after tax to total equity.

Another important ratio is the valuation ratio, which is used to measure the company's value based on its stock price. One of the key indicators is Earnings Per Share (EPS), which

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shows the profit distributed to shareholders per outstanding share (Irham Fahmi, 2013). EPS is calculated by dividing net income after tax by the total number of outstanding shares.

The research question addressed in this study is whether Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) each have an impact on the stock prices of banking companies listed on the Indonesia Stock Exchange (IDX). This study also aims to analyze the influence of each of these variables on the stock prices of banking companies on the IDX.

Several previous studies have provided insights into the factors affecting stock prices. (Annisa, Chaerudin, & Widodo, 2021; Sari & Maryoso, 2021)), and (Pratama & Afriyeni, 2022)ROA has a significant impact on stock prices . ROA had negative and significant effect on stock price(Ekawati & Yuniati, 2020). However, other studies show that ROA does not significantly affect stock prices (Al Umar & Savitri, 2020; Djannah, Harini, & Mulyani, 2019).

Regarding the ROE variable, research by (Annisa et al., 2021; Pratama & Afriyeni, 2022) indicated that ROE significantly influences stock prices. In contrast studies show that ROE has no significant effect on stock prices(Al Umar & Savitri, 2020; Djannah et al., 2019; Purwaningsih & Trianti, 2022)

For the EPS variable, EPS significantly affects stock prices (Al Umar & Savitri, 2020; Arsal, 2021; Djannah et al., 2019; Sari & Maryoso, 2021; Sujatmiko, 2019). EPS has a positive effect on stock prices (Hidayat et al., 2020)**.** However, research by (Ekawati & Yuniati, 2020; Paramayoga & Fariantin, 2023) showed that EPS does not significantly impact stock prices.

The gaps in previous research indicate that there is no definitive conclusion on whether ROA, ROE, and EPS significantly influence the stock prices of banking companies listed on the Indonesia Stock Exchange.

The choice to focus on banking stocks in this study is due to the significant role banks play in the economy and their unique financial structure. Banking companies are often highly regulated and have a direct influence on the financial market. Their stock prices are influenced by key financial indicators such as ROA, ROE, and EPS, making them ideal subjects for examining the relationship between financial performance and stock prices. Additionally, banks are essential in capital allocation, which can result in more pronounced effects of financial ratios on stock prices.

The hypotheses formulated in this study are as follows:

H1: Return on Assets (ROA) has a significant impact on stock prices of banking companies listed on the Indonesia Stock Exchange.

H2: Return on Equity (ROE) has a significant impact on stock prices of banking companies listed on the Indonesia Stock Exchange.

H3: Earnings Per Share (EPS) has a significant impact on stock prices of banking companies listed on the Indonesia Stock Exchange.

METHOD

The population consists of banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023, totaling 49 companies. The sampling method used is purposive sampling with the following criteria: companies listed in the banking sector on the Indonesia Stock Exchange, companies with complete financial reports for three consecutive years (2021–2023), and companies that recorded profit for three consecutive years. Based on these criteria, the sample was obtained through elimination until 35 companies remained. From these 35 samples, the data analyzed covers the last three years, namely 2021, 2022, and 2023, resulting in a total sample of 35 companies multiplied by three

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years, yielding a total of 105 data points from banking companies listed on the Indonesia Stock Exchange according to the research criteria.

The dependent variable, or the outcome variable, according to Sugiyono (2019), is the variable that is influenced or is the result of the independent variable. In this study, the dependent variable is Stock Price. The independent variables, according to Sugiyono (2019), are the variables that influence or cause changes in the dependent variable. The independent variables in this study are Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS).

The data collection method used is documentation with secondary data. The data analysis technique in this study uses multiple linear regression. Classical assumption testing is performed to ensure that the results of the multiple linear regression analysis are free from violations of classical assumptions (Ghozali, 2021).

RESULTS AND DISCUSSION

Descriptive statistics is a data analysis method used to provide an overview or summary of a dataset. This analysis involves calculating key parameters such as minimum value, maximum value, mean, and standard deviation. The results of the descriptive statistical analysis are as follows:

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	105	0.00008	0.08409	0.01431	0.01386
ROE	105	0.00069	0.67610	0.08564	0.08884
EPS	105	0.00069	315.646	167.640	503.576
StockPrice	105	60	16000	2356.15	2725.34

Based on the descriptive analysis, the characteristics of the research variables are as follows. The ROA variable has a minimum value of 0.00008 and a maximum value of 0.08409, with mean of 0.01431 and a standard deviation of 0.01386. The ROE variable shows a minimum value of 0.00069 and a maximum value of 0.67610, with mean of 0.08564 and a standard deviation of 0.08884. For the EPS variable, the minimum value is recorded at 0.00069, while the maximum value reaches 31.5646, with mean of 1.67640 and a standard deviation of 5.03576. Meanwhile, the Stock Price variable has a minimum value of 60 and a maximum value of 16000, with an average of 2356.15 and a standard deviation of 2725.34. These figures illustrate the distribution and level of variation for each research variable.

This study has met all the requirements of the classical assumption tests, ensuring that the data analysis results are valid and reliable. The data distribution is normal, as measured using the Kolmogorov-Smirnov test. The Asymp. Sig. (2-tailed) value is 0.200, which satisfies the normality test requirement with a significance value greater than 0.05 (0.200 > 0.05). Therefore, it can be concluded that the data is normally distributed. The autocorrelation test shows a Durbin-Watson value of 2.112. By comparing this value with the Durbin-Watson critical values, we observe that 1.7411 < 2.112 < 2.2589. Therefore, it can be concluded that there is no autocorrelation.

All variables have a Tolerance value < 0.10 and a VIF value < 10,000, indicating that they are free from multicollinearity. Additionally, the data is free from heteroscedasticity, as

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confirmed by the Glejser test. The significance values for each variable are greater than 0.05, indicating that there is no heteroscedasticity.

Table 2. F Test

ANOVA[a]					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	62.590	3	20.863	16.546	0.001b
Residual	127.352	101	1.261		
Total	189.942	104			

a. Dependent Variable: stock Price
b. Predictors: (Constant), EPS, ROA, ROE

The F-test aims to assess the overall feasibility and accuracy of a model. Based on F test, the significance value (Sig) is 0.001, which is less than 0.05. Therefore, it can be concluded that the research model is appropriate.

The coefficient of determination (R^2) is used to determine the percentage of variation in the dependent variable that is explained by the independent variable. The results of the coefficient of determination test in this study are as follows:

Tabel 3. coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.574[a]	.330	.310	1.12240

The adjusted R-squared coefficient is 0.310, indicating that variations in ROA, ROE, and EPS contribute 31.0% to the stock price. The remaining 69.0% is influenced by other variables not included in the model.

Table 4. Multiple Linier Regression

Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	-2.407	2.563		-0.939	0.350
	ROA	0.088	0.130	0.055	0.677	0.500
	ROE	0.059	0.100	0.064	0.590	0.556
	EPS	0.365	0.076	0.523	4.807	0.001

a. Dependent Variable: stock Price

The Influence of ROA on Stock Prices

The first hypothesis in this study states that ROA significantly affects stock prices. Based on the analysis table, the significance value (Sig) for ROA is 0.50. Since the Sig value of 0.50 is the same as the significance level α (0.05), the null hypothesis (H_0) is accepted, and the alternative hypothesis (H_1) is rejected. In other words, there is no significant effect of ROA on stock prices. The results of this study support the findings of prices (Al Umar & Savitri, 2020; Djannah, Harini, & Mulyani, 2019). which state that ROA does not have a significant effect on stock prices.

The research data indicate that ROA values for companies during the 2021–2023 period experienced fluctuations. However, these changes did not influence stock prices in

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the market. One possible explanation for this is investor or market behavior, where ROA is not always a primary consideration in investment decisions. Additionally, in the banking sector, profitability is often not based on assets owned but rather derived from interest income and the company's capital. This suggests that other factors beyond ROA might play a more critical role in influencing stock prices in the banking industry.

ROA is a performance indicator that reflects a bank's efficiency in managing its assets to generate profits. Research indicates that ROA does not significantly affect stock prices in the banking sector. This may be due to investors focusing on other factors that better represent long-term growth potential, such as liquidity ratios, credit risk, or operational efficiency. Moreover, the banking sector is heavily influenced by regulations and monetary policy changes, making ROA as a standalone indicator less relevant in determining stock prices. This insignificance may stem from market expectations already being factored into current stock prices. Investors tend to adopt a holistic approach, combining various fundamental and macroeconomic indicators in their analyses.

The Influence of ROE on Stock Prices

The second hypothesis in this study states that ROE significantly affects stock prices. Based on the analysis, the significance value (Sig) for the ROE variable is 0.556. Since this value is greater than the significance level α (0.05), the null hypothesis (H_0) is accepted, and the alternative hypothesis (H_2) is rejected. In other words, there is no significant effect of ROE on stock prices.

The results of this study support the findings of (Al Umar & Savitri, 2020; Djannah et al., 2019; Purwaningsih & Trianti, 2022)which state that ROE does not have a significant effect on stock prices.

ROE is expected to reflect the quality of a company's management performance, where strong performance should lead to an increase in stock prices. However, the lack of significant influence of ROE in this study might be attributed to suboptimal management performance, resulting in profits that do not adequately represent the net gains available to investors. Consequently, investors may perceive limited benefits. Another contributing factor is that some investors may overlook a company's fundamental aspects when analyzing stocks, which could explain why ROE does not significantly impact stock prices.

ROE is an essential indicator for measuring a bank's efficiency in generating profits from shareholders' equity. However, research findings show that ROE has no significant effect on bank stock prices. This is because banking investors tend to consider other factors, such as liquidity, earnings stability, and macroeconomic conditions. External factors like regulations and monetary policies often play a more dominant role in shaping market perceptions of a bank's stock prospects.

The Influence of EPS on Stock Prices

The third hypothesis in this study posits that EPS significantly influences stock prices. According to the analysis table, the significance value (Sig) for the EPS variable is 0.001. Since the Sig value of 0.001 is smaller than the significance level α (0.05), it can be concluded that H_3 is accepted, and H_0 is rejected. This indicates that there is a significant relationship between EPS and stock prices.

The findings of this study are consistent with those of (Al Umar & Savitri, 2020; Arsal, 2021; Djannah et al., 2019; Sari & Maryoso, 2021; Sujatmiko, 2019), which indicate that Earnings Per Share (EPS) has a significant effect on stock prices.

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This finding suggests that higher EPS values in a company are associated with an increase in its stock price. EPS is one of many variables that can influence stock prices, as investors often focus on a company's EPS during their analysis. EPS reflects the company's profitability on a per-share basis, making it an important indicator of a company's success. Potential shareholders are attracted to high EPS figures because they signify strong performance and profitability. Consequently, fluctuations in EPS affect demand for a company's shares, ultimately impacting its stock price.

EPS is a crucial fundamental indicator that reflects net profit per share held by shareholders. This research shows that EPS has a significant impact on stock prices. This is because EPS directly represents a bank's financial performance and serves as a primary reference for investors to assess its profitability. The higher the EPS, the more attractive the stock becomes to investors, driving increased demand and, consequently, higher stock prices. The significant influence of EPS on stock prices is also due to its role as a market confidence indicator in the bank's future profit prospects. Investors tend to use EPS as a tool to evaluate potential earnings growth and dividend distribution.

CONCLUSION

This study examines the influence of ROA, ROE, and EPS on stock prices in the banking sector, revealing varying impacts among these variables. The results show that ROA does not significantly affect stock prices. Although ROA reflects a company's ability to generate profits from its assets, its influence may be overshadowed by other factors, such as investor behavior or alternative profitability indicators like interest income and company capital, which are more relevant in the banking industry. Similarly, ROE does not exhibit a significant impact on stock prices. While ROE generally measures the efficiency of management in utilizing equity to generate profits, its lack of influence might result from suboptimal management performance or the tendency of investors to overlook fundamental financial ratios in their decision-making process.

In contrast, EPS demonstrates a significant positive relationship with stock prices. As a measure of profitability on a per-share basis, EPS attracts investors and directly influences stock demand. Higher EPS values reflect better company performance, leading to increased investor interest and higher stock prices. Overall, the findings suggest that among the three variables, EPS serves as a more reliable predictor of stock price movements in the banking sector, emphasizing its importance in investment evaluations. Meanwhile, the influence of ROA and ROE may require additional context or complementary factors to fully explain their role in affecting stock prices.

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