The Effect Of Profitability On The Share Price Of Lq 45 Companies Listed On The Idx

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Abstract

This study aims to determine the effect of (1) return on assets on stock price, (2) return on equity, (3) net return on stock price, (4) return on assets, return on equity and net profit margin. on share prices of LQ 45 companies listed on the Indonesian Stock Exchange in the period 2018-2022. Data were collected using literature and literature review techniques and (1) analyzed by panel data regression analysis, (2) classical hypothesis testing, (3) multiple regression analysis, (4) multiple coefficients, (5) hypothesis testing by T-test and F-test . The results of this study show that (1) partial return on assets has a significant effect on stock prices (2) partial return on equity has no effect and is not significant. tell. stock price (3) Partial net profit has a significant effect on stock price (4) At the same time, return on assets, return on equity and return on equity Net income have a significant effect on stock prices.

Keywords: Return on Assets, Return on Equity, Net Profit Margin, Share Price

Introduction

In the context of the capital market, stock prices play an essential role as an indicator used by investors to evaluate the performance of companies. The profitability of the firm is one aspect that is thought to influence stock prices. Profitability measures a company's capacity to turn a profit from its ongoing operations, and it can affect how interested investors are in and view the company's shares. To thrive in a zero-tolerance business environment, a business must be able to compete with other businesses. Businesses need funding sources to finance operations or business expansion to achieve this goal. These funds may have been obtained from internal sources like debtors or investors. Because of the demand for the stock and a number of other variables that affect it, the price of shares traded in the capital markets is sometimes unpredictable. The stock price will increase or decrease when these factors change. The worth of a corporation is reflected in stock prices. A company's high share price shows that the public favors that company. Conversely, when a company's stock price is low, people tend to have a negative view of it. As a result, stock prices are important to society.

One of the indexes registered on the Indonesia Stock Exchange (IDX) is the LQ45 index. The 45 companies that make up the index have sizable market capitalizations and trading liquidity, and it is anticipated that the index will perform well and rise during the year. Stocks must satisfy a number of requirements and go through an extensive screening procedure to be included in the LQ45 index. The importance of stock prices as a gauge of shareholder satisfaction cannot be overstated. A high stock price denotes a more valuable corporation, whereas a low stock price could signify subpar business operations. High stock prices, however, might also make it difficult for investors to purchase shares.

Profitability is a critical performance indicator that focuses on a company's ability to make profits via the utilization of its own assets. Profitability was employed in this study as a gauge of business performance. Maximising profits is the major objective of corporate operations. This is so because profitability is a measure of how well a corporation uses its assets to generate profits. Because these metrics may account for a company's capacity to earn profits effectively, metrics like ROA, ROE, EPS, and NPM are used to measure profitability.

This is consistent with Jestry et al.'s (2017) research, which found that the ROA value significantly affects stock prices, as the above description shows. A study by Safitri Indrawati (2015) found no measurable impact on stock prices, despite the fact that the ROE number cannot affect firm pricing. According to Anita Suwandani, Suhendro, and Anita Wijayanti's (2017) research, the value of NPM can have a big effect on stock prices.

Method

Population and sample
This study's population consists of all 21 companies included in LQ 45 during the 2018–2022 research period. Purposive sampling is used based on preset criteria for the sample that was analysed. Purposive sampling, which is utilised in this study, refers to the selection of a group of participants based on characteristics or unique criteria (Arikunto, 2002). Consequently, the following factors can be taken into account while drawing samples:

1. All LQ 45 firms that have consistently been included in the LQ 45 index during the period 2018–2022.
2. All LQ 45 firms presenting financial statements during the study period
3. All firms with comprehensive data for the profitability ratio factors to be investigated
4. Companies with a net profit during the period of observation

Using the aforementioned criteria, the researchers identified a total of 19 population member firms as a sample of LQ 45 firms for the period 2018–2022.

Data Type

The quantitative data used in this study are those that can be evaluated or that are represented as numbers (numerical) from the financial statements of the business. The LQ 45 corporation, which is listed on the Indonesian stock exchange, is the subject of the study for this thesis for the years 2018 through 2022.

Data Sources

In this study, secondary data are used, meaning that the data obtained are facts, documents, and historical reports compiled from published or unpublished airships.

Data Collection Techniques

The data collection technique is an effective method for gathering the data or information used to support this study.

1.   Literary Analysis

Researchers conduct data collection by analysing theories gleaned from journals, literature, and previous research.

2.   Information

The annual financial statements of LQ 45 companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022 were collected by the researchers.

Variable Operational Definition

Share Price

According to Priantono, Hendra, and Anggraeni (2018: 63), the stock price reflects the accomplishments of the issuers, which is one indicator of a company's overall success. Investors should pay close attention to the stock price as a key determinant.

***Return on Asset* (ROA)**

According to Irham Fahmi (2012), the ability of an investment to generate the anticipated profit and whether it matches the assets invested by the company are both determined by the return on assets.

$$ROA = \frac{Net\ Profit}{Total\ Assets} x\ 100\%$$

Return On Equity **(ROE)**

Profitability with own capital, also known as Return On Equity (ROE), is a ratio used to compute net profit with own capital after taxes. This ratio shows the percentage of net profit that is produced with owner capital. The equation reads as follows:

$$ROE = \frac{Net\ Profit}{Equity\ Capital} x\ 100\%$$

Net Profit Margin **(NPM)**

Net Profit Margin (NPM) refers to sales profits after all expenses and income taxes have been accounted for. This margin illustrates how net profit after tax and sales are compared. The following formula is employed to calculate NPM:

$$NPM = \frac{Net\ Profit}{Sales} x\ 100\%$$

Data Analysis Methods

Analysis of data utilizing Eviews 12 and the following data analysis techniques: Panel data regression analysis, a traditional assumption test, multiple regression analysis, multiple coefficients, a hypothesis test using the T-test and F-test.

Discussion And Results

Panel Data Regression Analysis

1.   **Test Chow**

Table 1 Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects test	statistic	d.f.	Prob.
Cross-section F	67.920715	(18,73)	0.0000
Cross-section Chi-square	273.243637	18	0.0000

Source: data processed Eviews 12, 2023

The *Fixed Effect Model* (FEM) Method is the best model, according to the Chow test table, when the F and chi-square cross-section profitability values are both smaller than alpha 0.05.

2. **Hausman Test**

Table 2 Hausman Test Results

Correlated Random Effects – Hausman Test			
Equation: untitled			
Test cross-section random effects			
Test summary	Chi-Sq. Statistic	Chi-Sq.d.f.	Prob.
Cross-section random	2.728376	3	0.4354

Source: data processed Eviews 12, 2023

Result: 0.4354 > 0.05 (alpha)

The *Random Effect Model* (REM) is the most effective model, according to the aforementioned data.

3. **Lagrange Multiplier (LM) Test**

Table 3 Lagrange Multiplier (LM) Test Results

Null (No Rand. Effect)	Cross-Section	Period	Both
alternative	One-sided	One-sided	
Breusch-Pagan	147.3614	1.659118	149.0206
	(0.0000)	(0.1977)	(0.0000)

| Honda	12.13925	-1.288068	7.672946
	(0.0000)	(0.9011)	(0.0000)
King-Wu	12.13925	-1.288068	4.011093
	(0.0000)	(0.9011)	(0.0000)
GHM	-	-	147.3614
	-	-	(0.0000)

Source: processed eviews12 data, 2023

Result: 0.0000 < 0.05 (alpha)

The Breusch-Pagan (BP) probability value of 0.0000 is less than the alpha value of 0.05, so the null hypothesis is rejected. The Random Effect Model is the optimal model to utilize, according to the LM test.

Classical Assumption Test

1.   Normality Test
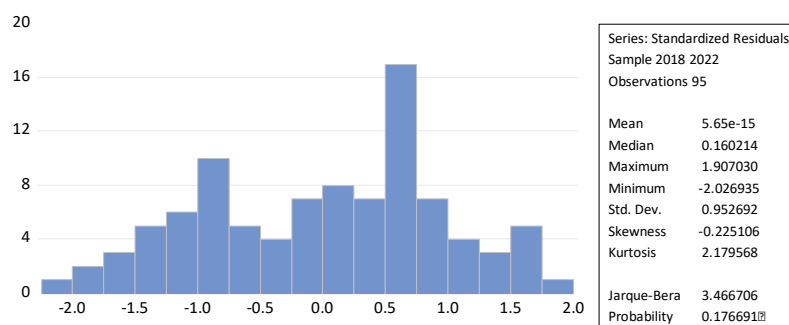
Source: Data processed Eviews 12, 2023

Figure 1 Normality Test Results

Result: 0.176691 > 0.05 (alpha)

After correcting the previous data, it is evident that the probability value of 0.176691 exceeds 0.05 (alpha). This suggests that the data are likely distributed routinely.

2.   Heteroscedasticity Test

Table 4 Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	T-Statistic	Prob.
C	4022.648	972.8585	4.134875	0.0001
ROA	68.95505	69.00019	0.999346	0.3203
ROE	-45.80565	44.46566	-1.030135	0.3057

NPM	8.675026	30.74068	0.282200	0.7784

Source: Data processed Eviews 12, 2023

The probabilities for each variable in this study are known to be ROA (X_1) with a probability of 0.3203 > 0.05 (alpha), ROE (X_2) with a probability of 0.3057 > 0.05 (alpha), and NPM (X_3) with a probability of 0.7784 > 0.05 based on the data presented above. Therefore, it can be said that there are no heteroscedasticity issues with any of the study's variables because their values are all bigger than 0.05 (alpha).

3. Multicollinearity Test

Table 5 Multicollinearity Test Results

	ROA	ROE	NPM
ROA	1.000000	0.603146	-0.053687
ROE	0.603146	1.000000	0.417216
NPM	-0.053687	0.417216	1.000000

Source: Data processed Eviews 12, 2023

According to the data presented above, the probability value of all independent variables in this study, namely Return On Assets (X1), Return On Equity (X2), and Net Profit Margin (X3), is 0.89. When the data lacks indications of or issues with multicollinearity, it can be said that the study data has satisfied the assumption of multicollinearity.

4. Autocorrelation Test

Table 6 Autocorrelation Test Results

Durbin-Watson stat	1.208356

Source: Data processed Eviews 12, 2023

The Durbin-Watson statistic has a value of 1.208356, which is between -2 and 2 based on the data presented above. Therefore, it suggests that there are no autocorrelation issues with the data.

The four classical assumption tests for panel data have no problems during the classical assumption test, according to the findings of the aforementioned test that was carried out in this study.

Multiple Linear Regression Analysis

Table 7 Multiple Linear Regression Results

Variable	Coefficient	Std. Error	T-Statistic	Prob.
Harga Saham	7.949084	0.225507	35.24984	0.0000
ROA	0.044655	0.012151	3.675020	0.0004
ROE	-0.012208	0.007662	-1.593359	0.1145

NPM	0.010997	0.005452	2.016949	0.0466

Source: Data processed Eviews 12, 2023

Based on the data shown above, the following multiple linear regression equation may be found using the Random Effect Model:

Using the Random Effect Model technique and the aforementioned data, the following multiple linear regression equation may be generated:

Multiple Linear Regression Equation:

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

$Y = 7.9490 + 0.0465 X_1 - 0.01220 X_2 + 0.0109 X_3$

The stock price variable and the Return On Asset (X_1) variable's regression coefficient values are 0.0465. This indicates that the variable stock price will change by 0.04 for every unit that the variable return on assets grows or drops.

The Return On Equity (X_2) variable's regression coefficient against the stock price is -0.0122. This means that for every unit increase or decrease in the variable return on equity, the variable stock price will fluctuate by 0.1.

The Net Profit Margin (X_3) variable's regression coefficient value against the stock price variable is 0.0109. This indicates that for every unit gain or reduction in the variable net profit margin, the variable stock price will change by 0.01.

Test the hypothesis

1. **T Test**

Table 8 T-Test Results

Variable	Coefficient	Std. Error	T-Statistic	Prob.
Harga Saham	7.949084	0.225507	35.24984	0.0000
ROA (X_1)	0.044655	0.012151	3.675020	0.0004
ROE (X_2)	-0.012208	0.007662	-1.593359	0.1145
NPM (X_3)	0.010997	0.005452	2.016949	0.0466

Source: data processed Eviews 12, 2023

Return On Asset (X_1)'s alpha value () has a probability value of 0.00 0.05. Therefore, it can be stated that during the period from 2018 to 2022, Return On Asset (X1) has a significant effect on the share price (Y) of the firm LQ 45.

The probability value of Return on Equity (X_2) > alpha value() is 0.11 > 0.05. Therefore, it can be concluded that Return On Equity (X_2) has no effect and is not significant on the share price (Y) of LQ 45 corporations from 2018 to 2022.

The Net Profit Margin (X_3) < alpha value (α) has a probability value of 0.04 < 0.05. Therefore, it can be said that, for the years 2018–2022, Net Profit Margin (X3) has an impact on and is important for the share price (Y) of LQ 45 businesses.

2. Test F

Table 9 F Test Results

F hitting	10.87
F tabel	2.70
Prob (F-statistic)	0.00

Source: :d ata processed eviews12,2023

According to Eviews 12 estimates, the probability value of the F test findings is 0.00 0.05 (alpha). Thus, it can be concluded that the share price (Y) of LQ 45 enterprises is significantly influenced by Return on Assets (X_1), Return on Equity (X_2), and Net Profit Margin (X_3) between 2018 and 2022.

Test Coefficient of Determination (R2)

Table 10 Test Results of Coefficient of Determination

Adjusted R-squared	0.239659

Source: data processed eviews12, 2023

Therefore can be deduced from the above data that the independent variables in this study—Return on Assets (X_1), Return on Equity (X_2), and Net Profit Margin (X_3)—can explain 0.23 or 23% of the variation. Then, other factors account for 76%, or 0.76, of the total.

Conclusion

The aforementioned research leads to the following conclusion: 1) Return on assets (ROA) has a significant influence on the impact of Return on assets (X_1) on stock prices. 2) Return On Equity (ROE) that Return On Equity (X_2) has no bearing on share price. 3) Net Profit Margin (NPM) has a substantial impact on Net Profit Margin (X_3) and the stock price. 4) Return On Asset $(X1)$, Return On Equity (X_2), and Net Profit Margin (X_3) have a simultaneous impact on stock prices.

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