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IMPACT OF FINANCIAL RATIOS ON THE SHARE PRICE OF A CONSUMER GOODS INDUSTRY COMPANY

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ABSTRACT

It is essential that investors have proper financial knowledge for each of their business decisions. One of the ways is to achieve it is to conduct a fundamental analysis related to the financial ratios, which can have an effect on the share price. The purpose of the particular research is to analyse earnings per share (EPS), price to earnings ratio (PER), price to book value (PBV), debt to equity ratio (DER), return to equity (ROE) and their effects on the price of the stock. The particular research is conducted on a consumer goods industry company enlisted in IDX between 2018 and 2020. The test of research hypothesis is conducted utilising multiple linear regression. The outcome of research is that EPS and PBV play a significant role in the share price, whereas PER, DER, ROE are the other way around.

INTRODUCTION

Not only has the effect of the COVID-19 pandemic affected the well-being of the society but also crushed the economic sectors of Indonesia significantly. Up to the third week of March 2020, the Composite Stock Price Index has been corrected as many as 30% since the beginning of 2020. As a matter of fact, recently the Price Index has been constantly and temporarily having a trade suspension due to its plunge to -5% within a day. This causes unease among investors and general people due to the inconsistency of the market which has constantly weakened. Nevertheless, for the investors who have been dealing with the stock price, this condition may in fact be viewed as an opportunity to generate more profit, which it goes without saying requires a proper knowledge of finance and a courage to take risks (finansial.bisnis.com, 29/03/2020).

Companies have been racing and competing to increase their company performance so as to attract investors. Prior to investing, investors find it necessary to observe the performance of the company they would invest in. It is certain that investors will want to invest on companies whose financial managements are well managed so as to minimise the potential of loss in the future. A company performance may be determined from its analysis on the company financial report. The financial report gives information concerning the monetary condition of the company and it can further be seen as a reflection of the company's financial performance. (Fahmi, 2014).

A company with proper work performance will attract more investors since a company performance affects its share price on the market. Investors will purchase shares based on the present company performance and its future prospects. Thus, a rising company performance will affect its share price and the return of the share price the investors earn will be equally rising as well (Desiana, 2017).

Another equally important factor for investors to pay attention to is study the share price of the company they want to invest in. A high share price will gain people's and investors' trust to invest more. This leads to more demands of the company shares. A company's financial statement will have financial ratios used as a tool to measure its performance and as a reference for the investors to invest within.

The financial ratios often used as bases for investors when investing are earnings per share (EPS), price to earnings ratio (PER), price to book value (PBV), debt to equity ratio (DER) and return on equity (ROE). In the particular research, the writer makes use of the financial ratios as independent variables and the share price as dependent ones.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Prior to investing, investors must take into account the kind of securities to be included in their portfolios. In terms of share investment, it is essential for investors to be well aware of the financial management of a go-public company in Indonesia and its effect on the share price. This surety is of pivotal role for the investors to have proper knowledge concerning the certainty of the company's growth in the future. (Widayanti & Colline, 2017)

Analysis of the company finance report utilising financial ratios is expected to provide the necessary information the investors need. The financial ratios in the financial report reflects the company performance as well as affecting the stock price of the company. Financial ratios implemented for the particular research are earnings per share (EPS), price to earnings ratio (PER), price to book value (PBV), debt to equity ratio (DER) dan return on equity (ROE). EPS shows the ability of the company to generate net profit for each share. EPS normally affects the share price in the stock exchange. PER is a ratio comparing the market price share with the profit of earning per share. The ratio depicts the company profit in comparison with the share price. A company whose share price is considered low has lower PER than the general PER in industries of similar kinds. PBV illustrates how big the market values the company shares are compared to its net profit. In general, investors are suggested to seek for shares with lower PBV than the general industrial PBV. DER is a ratio which calculates the amount of debt and the obligation of the company compared to its net capital. Investors are advised to seek for shares whose DER is no more than 1. ROE is the ratio of the net profit the company earns in comparison with the total net wealth of the company. The higher the ROE of a company is, the better the company will be.

The relationship between EPS and the share price. Earnings per share (EPS) is a ratio which calculates the comparison between the net profit after tax within a one-year book with the number of the published shares. A higher EPS is an indicator of the company's capability to generate net profit for each share. The higher the EPS number of the company is, the bigger the investors' desire to invest their capital will be. It is due to the fact that EPS indicates the profit that a shareholder is entitled to for each of his/her shares. The information of the rise of the EPS, which the market will have, is a positive sign and input for the investors to make a decision to buy the share. This will lead to the increasing demand of the share, as a consequence of which the share price will increase considerably. Suselo, et al.'s (2015) and Sutapa's (2018) research find it that EPS has an effect on the share price. Thus, the hypothesis of the research is as follows:

The 1st H: earnings per share (EPS) has an effect on the share price.

The PER relationship with the share price. Price to earnings ratio (PER) is a ratio which compares the market price share with the earning per share. The ratio is oftentimes used to compare the chance of investment. A company of which PER is high indicates its high development. Simultaneously, it shows that the market demands the increase of profit in the future. On the other hand, a company with low PER will have low likelihood of increase. The lower the PEF of a share is, the cheaper the share price to invest will be. Desiana (2017) states that PER influences the share price in the sense that each PER variable increase will heighten the share price. This concurrently means that every rise of PER variable is capable of making the share price go up and influencing the upcoming price of share. Priliyastuti & Stella (2017) and Suselo, et al. (2015) also states similarly regarding the influence of PER to the share price.

The 2nd H: price to earnings ratio (PER) has an impact on the share price.

The relationship of PBV with the share price. Price to book value (PBV) illustrates how the market values a company's share price. Desiana (2017) states that the higher the ratio is, the higher the share price of the company will be since it automatically show how good the company performance is. How high a company is valued by a financier is relative in comparison with the capital invested within the company. PBV investor ratio directly states how the market value of the share is appreciated from its book value. The investors' assessment towards a company is highly influential to the decision made of an investment. An investor would invest in a company whose performance is satisfactory. The ratio reflects the market trust towards the prospect of the company finance. This also means that investors have a complete trust to the company with their act of share purchase. Suselo, et al. (2015) states the PBV plays a significant and positive role towards the share price of a company. A change in PBV variable will result in the change of the share price. A positive correlation in each of PBV variable increases will have an impact on the rising price of the share within a certain period of time.

The 3rd H: price to book value (PBV) affects the share price.

The relationship between DER and the share price. Debt to equity ratio (DER) is a ratio utilised to measure the level of debt towards the company equity. The ratio shows the percentage of fund provided by the shareholders to the lenders. The higher the ratio is, the less the amount of fund given for the company by the shareholders. As far as the perspective of the ability to pay its obligation in the long run is concerned, the lower the ratio is, the better the company's capability to pay its long-term obligation. The information concerning the increase of DER will be taken as a bad signal for the market, which will incite negative inputs for the investors prior to their purchase of share. This will lead to the plummet of the share demand which simultaneously affects its share price as well since it will follow to go down. A research by Siregar (2020) shows that DER negatively affects the share price. The lower the value of a company's DER is, the more the investors' desire to purchase the company's share will be, which will go further to the rising price of the share.

The 4th H: debt to equity ratio (DER) influences the share price.

The ROE relationship with the share price. Return on equity (ROE) is a ratio measuring the effectivity of a company to generate profits from the its capital. The ratio shows the success of the management to maximise the return ratio to the shareholders. The higher the ratio is, the better the return to the shareholders will be. The ROEF development information will be taken as a progressive signal by the market, while simultaneously give positive feedbacks for the investors to make up their mind to buy shares. This will go further to the increasing demand for the shares and the share price will automatically be higher. Ani, et al. (2019) concludes that ROE has a positive and significant influence towards the share price. Hermawanti & Hidayat (2016) also conduct a research showing that ROE influences significantly to the share price.

The 5th H: return on equity (ROE) has an effect on the share price.

RESEARCH METHODS

The writer makes use of the whole population of industries specialising in consumption goods listen in IDX in the years of 2018, 2019 and 2020. The sample of the research is selected using purposive sampling method with the aim of getting representative samples in accordance with the following criteria:

1. The company is listed in IDX for the period of 2018 to 2020.
2. The company issues an annual report constantly in the years of 2018, 2019 and 2020.
3. The company presents complete data concerning earnings per share (EPS), price to earnings ratio (PER), price to book value (PBV), debt to equity ratio (DER), return on equity (ROE) and the share price from 2018 to 2020.
4. The company uses the currency of rupiahs so that every company will be liable to become a sample and the criteria measurement of the currency is also similar.

The research makes use of secondary data from the financial report published in the Indonesian Stock Exchange and accessible through the site of www.idx.co.id for a three year period (2018-2020). The operationalisation of the research variables are as follows:

1. Y variable → share price
   The formed price is the offer and demand of the share from the seller and the purchaser. The closing price of the share.
2. Variabel X1→ EPS
   Earnings per share (EPS) merupakan rasio perbandingan antara laba bersih dan jumlah saham yang beredar.

   $$EPS = \frac{\text{net profit}}{\text{issued total number of share}}$$

3. Variabel X2→ PER
   Price to earnings ratio (PER) merupakan rasio perbandingan antara harga per lembar saham dan laba per lembar saham.

   $$PER = \text{share price/profit for each piece of share}$$

4. Variabel X3 → PBV
   Price to book value (PBV) merupakan rasio perbandingan antara harga pasar dan harga nilai buku.

   $$PBV = \frac{\text{market price}}{\text{book price}}$$

5. Variabel X4 → DER
   Debt to equity ratio (DER) Rasio solvabilitas yang mencerminkan kemampuan perusahaan dalam memenuhi kewajibannya yang ditunjukkan oleh beberapa bagian dari modal sendiri atau ekuitas yang digunakan untuk membayar hutang.

   $$DER = \frac{\text{debt total}}{\text{equity total}}$$

6. Variabel X5 → ROE
   Return on equity (ROE) merupakan rasio yang mengukur efektivitas perusahaan dalam menghasilkan keuntungan dengan memanfaatkan modal yang dimiliki perusahaan.

   $$ROE = \frac{\text{net profit}}{\text{equity total}}$$

The test of hypothesis for the particular research uses double regression test as stated in the following equality:

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \varepsilon$

RESULTS AND DISCUSSION

Based on the specified sample criteria, there are 38 companies meeting the criteria using the three-year observation method (2018-2020). To provide an overview of the data, descriptive statistics are conducted. This includes the minimum, maximum, mean, and standard deviation values of all the studied variables.

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
EPS	114	-189.92	735.00	87.1007	148.97109
PER	114	-5300.00	493.55	-18.7477	504.18321
PBV	114	.18	12.20	2.2616	2.04536
DER	114	.00	2.75	.6891	.53476
ROE	114	-46.72	40.70	8.3504	14.49778
PRICE	114	13.00	11150.00	1561.6667	2278.79325
Valid N (listwise)	114				

The data for this research has been tested and eligible for the classic assumption test comprising normality test, multicollinearity test, autocorrelation test and heteroscedasticity test (Ghozali, 2018). The classic assumption test results are shown from the table is as follows:

Table 2. Classic Assumption Test Results

Classical Assumption	Result			Description
Normality test (Kolmogorov-Smirnov)	Asymp. Sig. (2-tailed) 0.273			normal data
Multicollinearity test (VIF)		Tolerance	VIF	there is no multicollinearity
	EPS	0.838	1.194	
	PER	0.992	1.008	
	PBV	0.641	1.561	
	DER	0.817	1.223	
	ROE	0.496	2.016	
Autocorrelation test (Runs test)	Asymp. Sig. (2-tailed) 0.436			there is no autocorrelation
Heterocedasticity test (Glejser)	EPS	0.611		there is no heterocedasticity
	PER	0.413		
	PBV	0.486		
	DER	0.905		
	ROE	0.650		

The eligibility model test shown from the table is as follows:

Table 3. Eligibility Model Test Result

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	152.659	5	30.532	43.873	.000[b]
	Residual	75.158	108	.696		
	Total	227.818	113			

a. Dependent Variable: Price
b. Predictors: (Constant), ROE, PER, EPS, DER, PBV

The significance number is 0.000 < 0.05. Thus, it can be summed up that the model used for the research is eligible to be used for the research.

Subsequently, a table showing the result of double linear regression analysis is processed using SPSS program:

Table 4. The Hypothesis Test Result

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	55.835	6.025		9.267	.000
	EPS	2.734	.307	.538	8.912	.000
	PER	-.015	.438	-.002	-.035	.972
	PBV	5.243	1.257	.288	4.172	.000
	DER	1.260	.860	.090	1.465	.146
	ROE	-3.210	1.096	-.230	-2.928	.074

a. Dependent Variable: Price

The Influence of earnings per share (EPS) to the share price

The first hypothesis of the research is that earnings per share (EPS) impacts the share price. Statistics data processing outcome shows a significance value of as many as 0.000, which is lower than the correction level which is 5%. This indicates EPS significantly influences the share price.

The research is in line with Sutapa's (2018) and Suselo, et al's (2015) research as well as Murwanti & Mulyono's (2015) and Widayanti & Coline's (2017). Suselo, et al (2015) states that the investors' response towards the share price is influenced by the profit information, which in this case is represented by EPS as the reflection of the company's financial management for a certain period of time. If the profit of each share is higher, the company prospect will be better and vice versa. This is also true of the profit of each share. Sutapa (2018) states that EPS is one of the indicators of a company's success. Therefore, the higher the EPS value of the company is, the more the profit to share for the shareholders will be. The same will ring true of the share price of the company.

EPS has a positive impact towards the share price. EPS is constantly used as a benchmark in measuring the work of a company. Hypothesis test concludes that the higher an EPS is, the more it will exercise its influence on the share price increase.

The influence of price to earnings ratio (PER) to the share price

The second hypothesis of the research is that price to earnings ratio (PER) impacts the share price. Statistics data processing shows the significance value as many as 0.972 higher than the 5% correction level. This means that PER has no influence towards the share price. This research result is contrary to the research by Desiana (2017), Priliyastuti & Stella (2017), who state that the PER result has an effect on the share price.

The object of the research on a different set of time is liable to make a different research result. Therefore, in the particular research, PER does not significantly impact the share price. The research supports the research by Hermawanti and Hidayat (2016), who state that PER cannot be the benchmark of the market for certain. Thus, the ratio does not give an impact towards the share price. A low PER does not automatically suggest a low interest towards the issuer's stock.

The influence of price to book value (PBV) towards the share price

The 3rd hypothesis of the research is that price to book value (PBV) affects the share price. Statistic data processing has it that the significance value is 0.000 lower than the correction level of 5%. This means that PBV has an effect towards the share price.

This research is in line with Suselo, et al.'s (2015) and Desiana's (2017) research stating that PBV significantly influence the share price. The higher the ratio of PBV is, the higher the price of the company's share, which simultaneously indicates a better company performance.

The influence of debt to equity ratio (DER) towards the share price

The 4th hypothesis of the research is that debt to equity ratio (DER) affects the share price. Statistics data processing shows significance value as many as 0.146 higher than 5% correction level. This means DER has no influence over the share price. This research outcome goes against Siregar's (2020), which shows that DEP negatively and significantly affects the share price.

From this research, it is obtained that DER has no significant influence towards the share price, meaning that whether the DER is low or high, it exercises no influence over the share price. This is due to the fact that there are different perceptions of the investors towards DER. Some investors highly value DER as something natural since a developing company naturally needs huge operational funds, which it is impossible to be covered by the company's capital alone. As long as a company poses no problem in fulfilling its obligation, it will not reduce the interest of the investors to purchase shares. This research supports the research by Suselo, et al. (2015), Sutapa (2018), Priliyastuti & Stella (2017), Raharjo & Muid (2013), Hermawanti & Hidayat (2016), Takarini & Hendrarini (2011).

The influence of return on equity (ROE) towards the share price

The fifth hypothesis of the research is that return on equity (ROE) has an effect on the share price. Statistics data processing has it that there is a significance value as many as 0.074 higher than the 5% correction level. This means that ROE has no significant value towards the share price. This research is against the ones by Ani, et al (2019) and Hermawanti & Hidayat (2016), which show that ROE affects the share price and the fact that the higher the ROE of a company is, the higher the share price will be.

The hypothesis outcome of the research is ROE has no influence over the share price. This means that a higher ROE does not correspond to a higher share price. This is due to the fact that the measurement of profit with ROE is not the sole factor that a company has to attract investors. A rising share price is due to the investors' interest towards a certain share. In order to attract investors, it is essential that the company performance be well viewed. Investors will be attracted to companies whose work performance are on the whole satisfactory rather than measured from simply one ratio. This research outcome supports the research by Sutapa (2018), Murwanti & Mulyono (2015), Widayanti & Colline (2017), Raharjo & Muid (2013), Takarini and Hendrarini (2011), Murwanti & Mulyono (2015).

CONCLUSION AND SUGGESTION

The conclusion of the research is that earnings per share has a significant influence towards the share price, price to earnings do the opposite, price to book value significantly affects the share price, debt to equity ratio does not and neither does return on equity. This research shows different results from the previous ones. To be exact, some results go along with the previous ones while some others do not. This is definitely due to the difference of the research object and the different set of time that make different results eventually. This research was conducted in companies dealing with industries of consumer goods in the consecutive years from 2018 to 2020 (3 years in a row).

Out of five analysed variables, EPS and PBV are of pivotal role to the share price. As for PER, DER and ROE, they are on the contrary. Nevertheless, the three aforementioned variables are not to be neglected by companies and investors. It is because a company performance is not viewed by not only the ratio but the overall fundamental performance as well. The writer's suggestion is that in the future, the research can be conducted in distinct industries in a different time span and use different variables as well.

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