

THE EFFECT OF EARNINGS PER SHARE AND RETURN ON EQUITY ON STOCK PRICES OF COMPANIES LISTED IN THE KOMPAS 100 INDEX FOR THE 2021-2023 PERIOD

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ABSTRACT

This study aims to analyze the effect of Earnings per share (EPS) and Return on Equity (ROE) on stock prices of companies listed in the Kompas 100 index for the 2021-2023 period. The population in this study are companies included in the Kompas 100 Index listed on the IDX during the 2021-2023 period. The sample in this study were 135 companies obtained using purposive sampling technique by applying certain criteria. The data used in this study are secondary data obtained from the annual report of each company. This study uses a quantitative method with a multiple linear regression analysis approach to test the relationship between the independent variables (Earnings per share and Return on Equity) and the dependent variable (stock price).

The results showed that EPS has a significant positive effect on stock price, which indicates that an increase in EPS will increase the company's stock price. However, ROE has no significant effect on the company's stock price, which indicates that the company's equity performance in terms of profitability does not affect the movement of stock prices in the period studied.

Keywords: *Earnings Per Share, Return on Equity, Stock Prices, Kompas 100 Index*

INTRODUCTION

Along with the rapid growth of the times, humans are encouraged to follow changes, especially in the economic field. A growing economy, increasing public income, and limited productive age encourage people to realize the importance of investing for the future. The growth of domestic investors in the Indonesian capital market continues to increase every year, especially from 2021 to 2023.

The Indonesian Central Securities Depository (KSEI) in 2021 revealed that the total number of investors as of 2021 reached 7,48 million investors or shot up 92,99% when compared to 2020 of 3,88 million investors. Of the total number of investors, the number of C-Best investors or stock investors reached 3,45 million as of 2021 or shot up 103,60% when compared to the end of 2020 of 1,69 million investors. In 2022, the number of capital market investors in Indonesia was 10,31 million, an increase of 37,68% from the previous year. Meanwhile, in 2023, capital market investors reached 12,16 million, an increase of 17,95% compared to the previous year (Otoritas Jasa Keuangan, 2023).

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The purpose of an investor conducting investment activities is to obtain a return in the form of capital gains or dividends. If the decisions made by investors are in accordance with existing analysis, the investment will generate profits. Therefore, if the investor makes the right decision, the investor has a greater chance of making a profit (Achmad Chusanudin & Munandar, 2022).

Investors' decisions to carry out investment activities can be influenced by several things. The components in the company's financial statements are one of the important things that must be considered because the ratio describes the company's performance and its effect on the share price and the profit that investors will get for the shares they own. Some of the company's financial ratios include Earnings Per Share and Return on Equity. Because these two indicators can affect the stock price of a company, these two ratios are information that becomes the independent variable in this study.

THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION

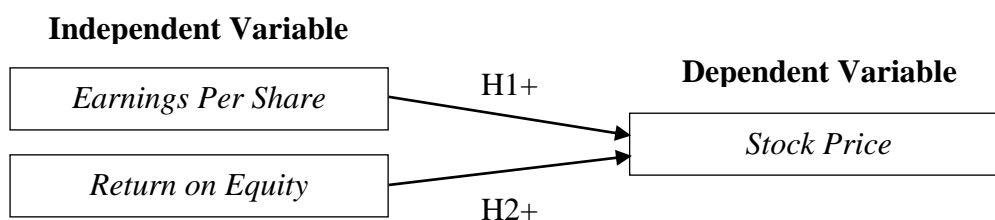
Signaling theory was first introduced by Spence in his 1973 study entitled Job Market Signaling. Spence states that a signal can be defined as information provided by the sender (owner of the information) who seeks to provide relevant information that can be used by the recipient. The recipient of the information then determines the attitude to be taken based on his understanding of the signal that has been received (Spence, 2017).

Positive signals provided by companies play a very important role in determining stock prices. Investors are always on the lookout for companies that have strong financial performance, clear growth strategies, competent management, and attractive dividend policies. By understanding these positive signals, investors can make better investment decisions and increase their chances of making a profit.

EPS and ROE are two very important financial metrics for investors in assessing the performance and prospects of a company. When these two metrics show a positive trend, it can be a strong signal for investors to buy the company's shares. This positive signal will increase investment interest, push up the stock price, and ultimately increase the value of the investor's portfolio.

The following framework chart shows the flow of thought that underlies the author from the explanation above:

Image 1 Framework of Thought



Hypothesis Formulation

The Effect of Earnings Per Share on Stock Prices

In the context of signaling theory, there is a positive relationship between Earnings per share (EPS) which is the independent variable and stock price as the dependent variable. EPS is a form of positive signal given by the company to investors that shows the company's ability to generate earnings per share. An increase in the EPS ratio will influence investors to tend to interpret it as an indication of strong financial performance, which can increase investor confidence and will later trigger an increase in stock prices (Ravindo & Pujiono, 2024).

H₁: Earnings Per Share has a significant positive effect on stock prices

The Effect of Return on Equity on Stock Prices

Based on the theory used in this study, namely signaling theory, Return on Equity (ROE) which is an independent variable functions as a positive signal sent by the company to investors regarding the company's effectiveness in generating profits from equity. The percentage of Return on Equity (ROE) is directly proportional to the amount of return received by investors, which increases positive perceptions about the company's financial performance and will encourage investor interest in buying shares which will have an impact on increasing the company's share price.

H₂: Return on Equity has a significant positive effect on stock prices

RESEARCH METHODS

Population and Sample

In this study, the sampling method used was a non-probability sampling method with purposive sampling technique. The population in this study used 300 companies that remained in the Kompas 100 Index during 2021-2023. The sample selection was carried out by setting certain criteria.

Data Collection Method

The data collection process is carried out by reading the company's annual report or annual financial report obtained from the official IDX website (www.idx.co.id), id.investing.com, or the official website of each sample. After data collection, sample selection is carried out in accordance with the sample criteria that have been determined as a limitation for selecting samples as research objects.

Analysis Method

This study uses multiple linear regression analysis as an analytical method to test the hypothesis or the relationship between the variables. To analyze the relationship between relevant variables, the research data was processed using SPSS version 23 (Statistical Package for the Social Sciences) software. Before multiple linear regression analysis is carried out, the data must fulfill descriptive statistical analysis and classical assumptions including normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

This analysis is carried out to obtain some data that can provide a general description of the data such as the maximum value, minimum value, mean, median and standard deviation of each independent variable and the dependent variable. The following table presents the findings of the descriptive statistical test of each variable.

Table 1 Descriptive Statistical Analysis Result

Descriptive Statistic					
	N	Minimum	Maximum	Mean	Std. Deviation
Earnings per share	135	0,47	1024,25	207,1246	238,94659
Return on Equity	135	0,10%	2200,00%	34,3982%	189,74773%
Stock Price	135	170	12100	2784,24	2847,259

From the table above, information can be obtained about the earnings per share variable that the minimum value is 0.47, the maximum value is 1024, 25, the average is 207.12 and the standard deviation is 238.94. Return on equity has a minimum value of 0.1%, a maximum value of 2200%, an average of 34.39% and a standard deviation of 189.74%. Meanwhile, the stock price has a minimum value of 170, a maximum value of 12,100, an average of 2784.24, and a standard deviation of 2874.25.

Classical Assumption Test

1. Normality Test

Table 2 Normality Test Result

One Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		135
Normal Parameters ^{a,b}	Mean	0,0000000
	Std. Deviation	0,59244221
Most Extreme Differences	Absolute	0,054
	Positive	0,043
	Negative	-0,054
Test Statistic		0,054
Asymp. Sig. (2-tailed)		0,200

a. Test distribution is Normal.

b. Calculated from data.

Based on the Kolmogorov-Smirnov test that has been carried out with the test results in table 2, Asym. Sig. (2-tailed) or the significance value obtained is 0.200 which means greater than 0.05, so the data test results are normally distributed.

2. Multicollinearity Test

Table 3 Multicollinearity Test Result

	Model	Collinearity Statistics	
		Tolerance	VIF
1	Earnings per share	0,789	1,267
	Return on equity	0,789	1,267

a. Dependent Variable: Stock Price

Based on the multicollinearity test that has been carried out with the results in table 3, it can be concluded that the independent variables or independent variables in this study did not find any multicollinearity. This is because the tolerance value or tolerance of each independent variable or independent variable is 0.789 which means more than 0.10 and the VIF value is 1.267 or <10 which explains the absence of multicollinearity conditions.

3. Heteroscedasticity Test

Table 4 Heteroscedasticity Test Result

Glejser Test					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0,667	0,232		2,869	0,005
Earnings per share	-0,039	0,037	-0,100	-1,055	0,293
Return on equity	-0,078	0,042	-0,176	-1,852	0,066

a. Dependent Variable: Stock Price

Based on the Glejser test that has been carried out with the results listed in table 4, it can be concluded that the data in the study does not experience heteroscedasticity problems. This happens because the significance value of all independent variables or independent variables > 0.05. The significance value of Earnings per share is 0.293 while the significance value of Return on Equity is 0.66.

4. Durbin-Watson Autocorrelation Test

Table 5 Autocorrelation Test Result

Durbin-Watson Test					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,832	0,693	0,686	0,59480	1,864

a. Predictors: (Constant), Earnings per share, Return on equity

b. Dependent Variable: Stock Price

$$1,7490 < 1,864 < 2,251$$

From the Durbin-Watson table with a sample size of 135, it is known that the dL value is 1.6889 and the dU value is 1.7490. Based on the test results in table 5, the number 1.864 is obtained. The Durbin-Watson test value is greater than the dU value (1.7490) and smaller than the 4-dU value (2.251). It can be concluded that there is no autocorrelation problem in the variables used in the study.

Multiple Linear Regression Analysis

Table 6 Multiple Linear Regression Analysis Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3,631	0,312		11,625	0,000
Earnings per share	0,777	0,050	0,851	15,655	0,000
Return on equity	-0,046	0,057	-0,044	-0,804	0,423

a. Dependent Variable: Stock Price

From the test result, a multiple linear regression model is obtained as follows.

Based on the regression equation, it is concluded that:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + e$$

$$Y = 3,631 + 0,777X_1 - 0,046X_2 + e$$

a. Value a (constant) = 3,631

Is the value obtained if the two independent variables Earnings per share (x1) and Return on Equity (x2) are zero, the stock price (y) is estimated at 3,631.

b. Regression coefficient X1 (Earnings per share) = 0.777

This value indicates that each Earnings per share increases by 1, the stock price will increase by 0.777. This shows that Earnings per share has a positive influence on stock prices.

c. Regression coefficient X2 (Return on Equity) = -0.046

This value indicates that every time Return on Equity increases by 1, the stock price will decrease by 0.046 (-0.046). This means that Return on Equity has a negative effect on stock prices.

Model Validity Test

1. Coefficient of Determination (R²) Test

Table 7 Coefficient of Determination (R²) Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,832	0,692	0,687	0,59691

a. Predictors: (Constant), Return on equity, Earnings per share

b. Dependent Variable: Stock Price

From the table 7, the adjusted R square result is 0.687. This means that the multiple linear regression model can explain 68.7% of the variation in stock prices (y). It can be said that the Earnings per share and Return on Equity variables have an effect of 68.7% on stock prices. Meanwhile, 31.3% of variations or factors related to stock prices are not explained by this model.

2. F Test

Table 8 F Test Result

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	105,691	2	52,846	148,316	0,000
	Residual	47,032	132	0,356		
	Total	152,724	134			

a. Dependent Variable: Stock Price

b. Predictors: (Constant), Return on equity, Earnings per share

Based on the table of simultaneous significance test results or the F test above, the calculated value of F is 148.316 and a significance value of 0.000. The F value is greater than F table = 3.06 and the significance value is 0.000 or less than 0.05. The F value in the table test results is greater than the F table, indicating that the independent variables or independent variables together significantly affect the dependent variable. Changes that occur in the independent variable will cause a significant effect on the dependent variable.

3. T Test

Based on the test results in Table 7, the following conclusions can be obtained:

a. The t test results between Earnings per share variables on stock price

The significance value (0.000) which is smaller than 0.05 indicates that the independent variable Earnings pre share has a significant effect on stock prices. The nature of the effect is positive as seen from the variable coefficient obtained (15.655).

b. The t test results between the Return on Equity variable and the stock price

The significance value (0.423) which is greater than 0.05 indicates that the independent variable Return on Equity does not have a significant effect on stock prices. The nature of the effect is negative as seen from the variable coefficient obtained (-0.804).

Interpretation of Result

Effect of Earnings Per Share on Stock Prices

The research that has been conducted provides the results of the significance of the Earnings per share variable of 0.000 less than 0.05 with a positive t value coefficient. Based on these results, it can be concluded that Earnings per share has a significant positive effect on the share price of companies included in the Kompas 100 Index for the 2021-2023 period.

The positive relationship between Earnings per share and stock price indicates that the higher the Earnings per share, the higher the stock price value. This is in accordance with the signaling theory which is the theoretical basis for this study. Investors will show their positive response through the behavior of increasing investors' interest in investing in the company which will result in an increase in the company's stock price (Rasyidin et al., 2023).

The findings in this study are supported by the research of Monica & Hasanuh (2020), Choiriya et al. (2021), and Rahmawati & Hadian (2022) which say that Earnings per share has a positive effect on stock prices. The conclusion from the results of this study is that **H₁ is accepted**.

Effect of Return on Equity on Stock Prices

The research that has been conducted provides the results of the significance of the Return on Equity variable of 0.423 greater than 0.05 with a negative t value coefficient. Based on these results, it can be concluded that Return on Equity has a negative and insignificant effect on the stock price of companies included in the Kompas 100 Index for the 2021-2023 period. The results of this study indicate that there is no relationship or influence between Return on Equity and stock prices.

This finding shows that the ROE ratio, which is often seen as a leading indicator of a company's financial performance, has no role in the stock prices in this study. This contradicts the signal theory used where the Return on Equity ratio should provide positive signals to investors regarding the company's future profit prospects. This discrepancy indicates that there are many other factors that are more dominant in influencing the company's stock price. Return on Equity ratios that do not affect stock prices can occur due to other more dominant factors such as market conditions, investor sentiment regarding future cash flow and investment risk, or the overall economic situation (Kencana, 2019).

The findings in this study are supported by research by Ariesa et al. (2020) and Handayani (2021) which say that Return on Equity has no effect on stock prices. An increase or decrease in Return on Equity will not have an impact on the company's stock price. The conclusion of the results of this study is that **H₂ is rejected**.

CONCLUSION

Summary

Based on the results of the analysis in the research of the two variables that have been carried out, the following conclusions are obtained:

1. The first hypothesis which states that Earnings per share has an effect on the stock price of companies included in the Kompas 100 Index for the 2021-2023 period is accepted. This result explains that there is an influence brought by the Earnings per share variable, changes that occur in the Earnings per share ratio will have an impact on the company's stock price. The effect of Earnings per share on the company's stock price is positive or directly proportional, which means that if there is an increase in the Earnings per share ratio, there will also be an increase in the company's stock price.
2. The second hypothesis which states that Return on Equity affects the stock price of companies included in the Kompas 100 Index for the 2021-2023 period is rejected. The Return on Equity ratio is an indicator of the company's effective performance in generating returns on the capital invested by investors through investment activities. However, after research, it was found that Return on Equity does not always attract investors to invest in a company. This may happen because stock prices are influenced by various factors such as stock supply and demand, economic conditions, government policies, and other external factors.

Limitations

The research that has been conducted with the title "The Effect of Earnings Per Share and Return on Equity on the Stock Prices of Companies Included in the Kompas 100 Index for the 2021-2023 Period" still has several limitations that need more attention for future researchers. Some of the limitations of the study including:

1. The adjusted R square value is 0.687, which means that the variables in this study can only explain 68.7% and there are still 31.3% other factors that can affect stock prices.
2. The figures in the research data are figures directly provided by the company in the form of raso in the financial statements, which are not necessarily accurate after trying to calculate manually.

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