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THE INFLUENCE OF FINANCIAL PERFORMANCE ON STOCK PRICES IN BANKING SECTOR COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE FOR THE 2019-2021 PERIOD

Putu Ayu Sabdha GOTAMI¹, Ida I Dewa Ayu Mas Manik SASTRI², I Gusti B Ngr. P. PUTRA³

^{1,2,3}Department of Accounting, Faculty of Economic and Business, University of Warmadewa, Denpasar, Bali-Indonesia

Corresponding author: Putu Ayu Sabdha Gotami

E-mail: sabdhaGotami@gmail.com

Abstract:

The research examines the influence of return on assets, debt-to-equity ratio, current ratio, and price-earnings ratio on share prices in banking sector companies listed on the Indonesia Stock Exchange for 2019-2021. This research obtained 36 companies as samples using a purposive sampling technique with three years of observation. The total population of companies is 47, and the sample obtained was 36 companies that met the criteria using the purposive sampling method. The type of data applied is a quantitative approach. The data collected was then analyzed using multiple linear regression. The testing method uses multiple linear regression analysis techniques, classical assumption tests, F-tests, and T-tests. Judging from the results of the partial analysis, it is clear that there is a positive and significant influence of the return on assets and price-earnings ratio variables on stock prices. On the other hand, the debt-to-equity ratio variable and the current ratio variable have a negative and insignificant effect on stock prices.

Keywords: Return on Asset, Debt to Equity Ratio, Current Ratio, Price Earning Ratio, Stock Price.

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INTRODUCTION

The rapid development of the banking world in this era of globalization plays a very active role in economic progress. Banking is a financial institution that plays a strategic role in balancing various development elements. There is great interest from investors to invest in the banking sector. However, banking share prices tend to fluctuate, which causes investors to hesitate to invest their capital. Through the capital market, investors carry out transactions in the form of investments, one of which is by buying shares. The share price is a factor in the success of company management in its management. If the company's share price rises, investors see it as successful in running its business. If the share price continues to decline, it can reduce the company's value in the eyes of investors.

A case quoted in the news stated that the collapse of large bank shares to the point of touching the ARB limit at the close of trading caused the JCI to close down 4.42%. The sharp decline in shares of large banks resulted from the pressure of global uncertainty and negative sentiment. Apart from that, several digital bank shares experienced a decline due to high inflation affecting interest rates, thereby suppressing the financial performance of digital banks, especially since digital banks do not yet have strong fundamentals.



Financial performance is seen as a factor that investors pay attention to when buying shares because financial performance has a significant influence and is used to estimate whether the company will increase or decrease. This research uses fundamental analysis to consider things that can influence stock prices by taking steps to analyze financial ratios to measure banking financial performance.

Based on the problem above, the problem formulation that can be stated is how is the influence of Return on Assets, Debt to Equity Ratio, Current Ratio, and Price Earning-Ratio related to share prices in banking sector companies on the Indonesia Stock Exchange for the 2019-2021 period?

Literature Review. Signal theory discusses signals resulting from a decision made by a company (Fahmi, 2017). This signal theory provides reasons companies want to convey information related to their financial reports so that it can change investors' views on the company's condition.

According to William Hartanto (quoted by Simanullang, 2021), share prices are the estimated value of various financial instruments, leading to the percentage of company ownership rights in the capital market. This share price shows an accurate company performance index.

Financial performance is one of the determinations to pay attention to how optimally the company has implemented financial regulations properly. Financial ratio analysis must be used to analyze a company's financial data to determine the extent of its financial performance. (Fahmi, 2018).

Return on Assets is a ratio that shows the results of the total assets used by the company and how much contribution assets make in creating net profit (Kasmir, 2019). A company with a higher return on assets will achieve greater profits and have a more robust asset position. It shows that management can use the company's total assets well and will increase the company's share price. It is supported by research by Fahma (2019) and Aspriyadi (2020), which shows that Return on Assets has a positive and significant effect on stock prices.

H1 = Return on Assets (ROA) positively and significantly affects stock price.

Debt to Equity Ratio assesses liabilities against equity and knows each capital unit owned as collateral for liabilities (Kasmir, 2019). A high debt-to-equity ratio shows that the composition of total debt is getting more extensive when compared to the total own capital, which will impact the company's more significant burden on external parties (creditors). A higher debt-to-equity ratio indicates a lower ability for the company to pay off its obligations. As a result, investor interest may decrease, and the company's share price may also decrease. It is supported by Fahma's (2019) research, which resulted in the Debt to Equity Ratio having a negative and significant effect on stock prices.

H2 = Debt to Equity Ratio (DER) negatively and significantly affects share prices.

The current ratio is a ratio to measure the company's ability to pay off short-term obligations that are due soon as a whole. The higher the liquidity ratio, the better it will be for your investors. Companies that investors are interested in are companies that have a reasonably high liquidity ratio. Then, the better the current ratio, the more liquid the company will be, so it can increase interest for investors in investing their shares. It is supported by research by Nugroho and Djawoto (2021), who state that the Current Ratio positively and significantly affects share prices.

H3 = Current Ratio (CR) positively and significantly affects price share.

The price-earning ratio is used to compare the price per share with the net profit per share of the related shares so that later, it can be used to determine the fair price of the company's shares (Nainggolan, 2019). The higher the Price Earnings Ratio means that a company's share price will be

more expensive than net income per share. So, it shows better company performance, it will attract investors' interest in investing capital. It will have a positive impact on share prices. It is supported by research by Kusuma (2018), which shows that the Price Earning Ratio positively and significantly affects stock price.

H4 = Price Earning Ratio (PER) positively and significantly affects share prices.

METHODS

This research chose banking sector companies listed on the Indonesia Stock Exchange as the research location. The total population of companies is 47, and the sample obtained was 36 companies that met the criteria using the purposive sampling method. The data sources used are secondary data, and the data collection process is through documentation studies in the form of financial reports from 2019-2021, which can be obtained from the official IDX website. The testing method uses multiple linear regression analysis techniques, classical assumption tests, F-tests, and T-tests.

RESULT AND DISCUSSION

From the results of the analysis carried out in the data processing stage of the 108 data collected, some results did not meet the requirements of the classical assumption test, so multiple linear regression testing could not be continued because there were outlier data in this study, resulting in 39 data being used to be tested again.

Table 1. Descriptive Statistics

	N	Mean	Std. Deviation
Stock price	39	978,03	1375,204
ROA	39	0,00036	0,019564
DER	39	7,00354	2,881735
CR	39	0,34649	0,183271
PER	39	59,91	148,518

Source: (Data Processed, 2022)

The analysis results from the table above show that if DER and CR have an average value more significant than the standard deviation, they show pretty good results from the overall data. Meanwhile, the average value of stock prices, ROA, and PER is lower than the standard deviation, which means it shows a poor representation of the overall data.

The classical assumption test shows that all data has met the requirements for hypothesis testing so that multiple linear regression analysis can be carried out next. Multiple linear regression analysis determines the independent variable's influence on the dependent variable.

Table 2. Multiple Linear Regression Analysis

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1128,314	604,219		1,867	0,070
1 ROA	32356,097	9210,889	0,460	3,513	0,001
DER	-35,457	63,961	-0,074	-0,554	0,583
CR	-350,198	984,501	-0,047	-0,356	0,724
PER	3,468	1,281	0,375	2,708	0,011

Source: (Data Processed, 2022)

The results of the linear regression analysis in the table above, a multiple linear regression equation can be created as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

$$Y = 1128,314 + 32356,097X_1 - 35,457X_2 - 350,198X_3 + 3,468X_4 + \varepsilon$$

The multiple linear regression equation shows the direction of each independent variable towards the dependent variable. This equation can be interpreted as follows:

- The constant value is 1128.314, meaning that if the value of the independent variables Return on Assets (X1), Debt to Equity Ratio (X2), Current Ratio (X3), and Price Earning Ratio (X4) is declared constant at 0, then the value of Share Price (Y) amounting to 1128,314 rupiah.
- Return on Assets (X1) has a positive regression coefficient of 32356.097. If the Return on Assets increases by 1%, the Share Price (Y) will increase by 32356.097 rupiahs, assuming the other independent variables are constant.
- Debt to Equity Ratio (X2) has a negative regression coefficient value of -35,457, meaning that if the Equity Ratio increases by 1%, then the Share Price (Y) will decrease by 35,457 rupiahs, assuming the other independent variables are constant.
- The Current Ratio (X3) has a negative regression coefficient of -350,198. If the Current Ratio increases by 1%, the Share Price (Y) will decrease by 350,198 rupiah, assuming the other independent variables are constant.
- The Price Earning Ratio (X4) has a positive regression coefficient of 3.468. If the Price Earning Ratio increases by 1%, the Share Price (Y) will increase by 3.468 rupiahs, assuming the other independent variables are constant.

The F test determines the influence of all independent variables on dependent variables. With testing criteria using levels significance 5%.

Table 3. F-Test

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	31655396,529	4	7913849,132	6,692	0,000 ^b
Residual	40209638,446	34	11826636,425		

total 71865034,974 38

Source: (Data Processed, 2022)

The analysis results from the table above show that the F-test (Simultaneous) value is 6.692, and the significance is $0.000 < 0.05$. It can be concluded that the independent variables positively and significantly influence the dependent variable.

The T-test is carried out to determine whether the independent variable influences significantly on the dependent variable at a significant level of 5%.

Table 4. T-Test

		<i>Coefficients^a</i>				
		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1128,314	604,219		1,867	0,070
	ROA	32356,097	9210,889	0,460	3,513	0,001
	DER	-35,457	63,961	-0,074	-0,554	0,583
	CR	-350,198	984,501	-0,047	-0,356	0,724
	PER	3,468	1,281	0,375	2,708	0,011

Source: (Data Processed, 2022)

The analysis results from the table above show that the T-test (partial) results prove that the ROA and PER variables have a significant value of < 0.05 , which means there is a significant influence on share prices. Meanwhile, the significant value is > 0.05 for the DER and CR variables, which means there is no significant influence on share prices.

Based on the analysis results, the Return on Assets variable positively and significantly influences stock prices, so the hypothesis in this research is accepted. It indicates that if the Return on Assets is higher, the company's profit will be more significant. It indicates that if the Return on Assets is higher, the company's profit will be more significant. Based on signal theory, the greater the ratio value, the better because it is considered the company's capabilities within conditions for generating profits. Thus, if the return on assets is high, it will be a good signal for investors because the high value of return on assets interprets the performance. The company's finances are sound, so investors will be interested in investing capital in the form of shares in the company.

Based on the analysis results, it is known that the Debt to Equity Ratio variable has a negative and insignificant influence on share prices, so the hypothesis is rejected. This matter indicates that most investors want long-term profits in the short term in the form of capital gains resulting in the purchase of shares. Investors who do not consider the value of the company's debt-to-equity ratio will follow the trends that occur in the market because investors who make investments do not consider the use of debt or repayment of significant interest and principal on debt, which ultimately does not affect the perception of investors for future profits. Therefore, the debt-to-equity ratio is not a significant

consideration for investors when buying shares. The signal theory states that management will signal internal investors to make investment decisions that ultimately change investor decisions by looking at the company's financial condition. Thus, a high debt-to-equity ratio value can give a wrong signal to investors because investors consider the company to have many risks, so investors will only purchase stocks with a high debt-to-equity ratio.

Based on the analysis test results, it is known that the Current Ratio variable has a negative and insignificant influence on share prices, so the hypothesis is rejected. It indicates that the Current Ratio has no impact on the ups and downs of share price movements because investors think that a high Current Ratio value does not necessarily mean the company is performing well but could be due to a high inventory value. A high inventory value will cause low profits for the company and ultimately cannot provide the expected return. Therefore, the current ratio value is not a factor investors consider. Signal theory states that party management will give signals to investors in making investment decisions that will ultimately change investors' decisions by looking at the company's financial condition. Thus, when A low current ratio value means the company is said to be incapable of paying all its short-term obligations, it will provide a wrong signal to investors because the company is in demand; investors are companies that have sufficient liquidity ratios.

Based on the results of the analysis test, it is known that the Price Earning Ratio variable has a positive and significant influence on stock prices, so the hypothesis is accepted. It indicates that if the Price Earning Ratio is more significant, a company's share price is more expensive regarding net profit per share. So that it shows good company performance and increases investors' desire to invest in the company. Signal theory states that management would signal investors to make investment decisions that ultimately change investor decisions by looking at the company's financial condition. The existence of a company's price-earnings ratio can show the comparison of the price of shares purchased with the earnings that will be obtained in the future, so a high value of the price-earnings ratio shows that investors if you are confident about the number of earnings provided by the company, investors will consider it a good signal increasing the attractiveness of investors to invest shares in companies which will have an impact on high price values share.

CONCLUSION

The analysis results conclude that the Return on Assets and Price price-earnings ratio variables positively and significantly influence stock prices. It follows the research objectives and hypothesis, which states that this variable positively and significantly influences stock prices. Meanwhile, the Current Ratio and Equity Ratio variables have a negative and insignificant influence on stock prices. It does not follow the stated hypothesis that the Equity Ratio variable has a negative and significant influence on share prices. In contrast, the current ratio variable positively and significantly influences share prices.

The suggestions expected for the following research include: (1) To update and extend the research period to obtain more samples and more significant results and better observe fluctuating stock price trends so that the research results are more up-to-date. (2) Adding variables closely related to financial performance and influence stock prices. (3) in this research, two variable results are not proven by the hypothesis set, so it is hoped that the research will be carried out again using a different company.

You will get different results if you want to use the same variables. You can re-prove the hypothesis in this research.

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