THE INFLUENCE OF RETURN ON EQUITY, CURRENT RATIO AND EARNING PER SHARE TOWARD STOCK PRICE OF CONSUMER GOODS INDUSTRY LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract
The aim of this research is to find out the influence of return on equity, current ratio, and earnings per share on the stock price of consumer goods industry listed on the Indonesia Stock Exchange (IDX) for the year 2017-2020. This is quantitative research with a purposive sampling method as the selected sampling method to be used. The data is secondary data derived from Indonesia Stock Exchange. In total, companies that meet the sample criteria amount to 25 companies from 2017 to 2020, resulting in a total of 100 data. The data analysis method applied is multiple linear regression which is processed through SPSS 25. The findings of this research show that, partially, return on equity has an insignificant influence toward stock price, whereas current ratio and earnings per share have a significant influence toward stock price of consumer goods industry listed on the Indonesia Stock Exchange (IDX) for the year 2017-2020. On the other hand, those three independent variables simultaneously have significant influence on stock price.

Keywords: Return on Equity; Current Ratio; Earnings per Share; Stock Price

INTRODUCTION

The business world is evolving at a rapid pace. Indonesia provides significant opportunities for businesses in a wide range of industries, and is attracting investors seeking a piece of the country's massive and rapidly expanding market. The existence of a capital market has a considerable influence on a country's economic growth and economic efficiency by diverting financial funds from unproductive to productive purposes. Stock is a type of investment that allows people to begin with a small amount of money. When investors buy stock in a company, they are essentially purchasing ownership of the company. On the Indonesia Stock Exchange, anyone can easily register to buy a company's stock. Stock investing has grown in popularity in the twenty-first century.

According to Otoritas Jasa Keuangan (2021), the number of investors is increasing over the year 2017 to 2020. The total recorded number of capital market investors was 1.12 million in 2017. This number increased 44% to 1.82 million in 2018. Furthermore, the number of investors increased by another 53% to 2.48 million in 2019. In 2020, the number of investors increased 56.2% to 3.88 million despite the pandemic. Retail investors under the age of 30 are increasingly dominating with a coverage of 54.9% in 2020.

METHODOLOGY

Data analysis techniques, according to Sugiyono (2019), are practices that took place after all data from all respondents or other data sources have been collected. Data analysis practices include grouping data based on variables and types of respondents, tabulating data based on variables from all respondents, presenting data for each variable studied, performing calculations to answer the problem formulation, and performing calculations to test the hypotheses that have been proposed. As the author employs the quantitative research method, the data analysis technique used is directed to answer the problem formulation or test the hypothesis that has been formulated in the proposal. Because the data is quantitative, the data analysis technique employs statistical methods that are widely accessible. There are two kinds of statistics used for data analysis in research, namely descriptive statistics and inferential statistics.

Inferential statistics are statistics related to how to draw conclusions based on data obtained from samples to describe the characteristics or characteristics of a population (Sugiyono, 2019). The inferential statistics that are used in this study include multiple linear regression analysis, classical assumption test, and hypothesis testing test. The classical assumption test consists of four tests: the normality test, the multicollinearity test, the autocorrelation test, and the heteroscedasticity test. Whereas, there are three types of tests must be performed under the hypothesis testing test are the t-test, f-test, and coefficient of determination. Furthermore, the data will be processed through IBM SPSS Statistics 25.0.

RESULTS

The results of hypothesis testing from the multiple linear regression analysis are presented in the partial significance test (t-test), simultaneous significance test (f-test), and coefficient of determination (adjusted R2). In this study, the Partial Hypothesis Testing or T-test is used to demonstrate how significant each independent variable, namely return on equity, current ratio, and earnings per share, is in explaining the variance of the dependent variable, namely stock price. Hence, the result of t-test will also answer and prove the developed hypothesis, as follows:

H1: Return on Equity has significant influence toward Stock Price of Consumer Goods Industry listed on the Indonesia Stock Exchange partially.

H2: Current Ratio has significant influence toward Stock Price of Consumer Goods Industry listed on the Indonesia Stock Exchange partially.

H3: Earnings per Share has significant influence toward Stock Price of Consumer Goods Industry listed on the Indonesia Stock Exchange partially.

In the decision-making process, two factors must be considered: the significance level and the Tcount value. Those with a significant influence should have a significance level of 0.05 or less. Whereas, those with a significant influence should have a Tcount greater than Ttable or less than negatives Ttable (Tcount > Ttable or Tcount < - Ttable). The hypotheses will be accepted only if these two criteria are met.

The degree of freedom for this research is 74, which is calculated by subtracting the number of sample data from the number of variables (78 – 4 = 74).

As a result, the Ttable value used will be 1.99254 or –1.99254. The outcome of the t-test is provided below.

Table 1. Partial Hypothesis Testing (T-Test)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.769	4.653		3.389	0.001
	LAG_X1	28.177	15.140	0.184	1.861	0.067
	LAG_X2	-10.399	4.835	-0.185	-2.151	0.035
	LAG_X3	2.350	0.353	0.618	6.659	0.000
a. Dependent Variable: LAG_Y						

Source: Data Processing with SPSS 25 (2022)

Based on the table, the result of partial hypothesis testing can be interpreted as follows:

1. The significance value obtained from the t-test of return on equity (X1) on stock price (Y) is 0.067, which is greater than 0.05. Meanwhile, the Tcount value is 1.861, which is less than the Ttable value of 1.99254 but greater than the negative Ttable value of -1.99254 (-Ttable ≤ Tcount ≤ Ttable). Hence, with a significance value of 0.067 > 0.05, a coefficient of 28.177, and a T value of -1.99254 ≤ 1.861 ≤ 1.99254, it can be concluded that return on equity has a positive and insignificant influence on the stock price of the consumer goods industry listed on the Indonesia Stock Exchange from 2017 to 2020. Thus, the paper's first hypothesis (H1) is rejected.
2. The significance value obtained from the t-test of current ratio (X2) on stock price (Y) is 0.035, which is lower than 0.05. Meanwhile, the Tcount value is -2.151, which is less than the - Ttable value of 1.99254 (Tcount < -Ttable). Hence, with a significance value of 0.035 < 0.05, a coefficient of -10.399, and a T value of -2.151 < -1.99254, it can be concluded that current ratio has a negative significant influence on the stock price of the consumer goods industry listed on the Indonesia Stock Exchange from 2017 to 2020. Thus, the paper's second hypothesis (H2) is accepted.
3. The significance value obtained from the t-test of earnings per share (X3) on stock price (Y) is 0.000, which is lower than 0.05. Meanwhile, the Tcount value is 6.659, which is greater than the Ttable value of 1.99254 (Tcount > Ttable). Hence, with a significance value of 0.000 < 0.05, a coefficient of 2.350, and a T value of 6.659 > 1.99254, it can be concluded that earnings per share has a positive significant influence on the stock price of the consumer goods industry listed on the Indonesia Stock Exchange from 2017 to 2020. Thus, the paper's third hypothesis (H3) is accepted.

Simultaneous Hypothesis Testing or F-Test is used to determine if independent variables namely return on equity, current ratio, and earnings per share have any impact on the dependent variable namely stock price simultaneously. Hence, the result of the f-test will also answer and prove the developed hypothesis, as follows:
H4: Return on Equity, Current Ratio, and Earnings per Share have significant influence toward Stock Price of Consumer Goods Industry listed on the Indonesia Stock Exchange simultaneously.

In the decision-making process, two factors must be considered: the significance level and the Fcount value. Those with a significant influence should have a significance level of 0.05 or less. Whereas, those with a significant influence should have Fcount greater than the Ftable (Fcount > Ftable). The hypotheses will be accepted only if these two criteria are met. The degree of freedom in the numerator for this research is 3, which is the number of variables minus 1 (4 – 1 = 3), and the degree of freedom in the denominator is 51, which is the number of sample data minus the number of variables (78 – 4 = 74). Hence, the Ftable value used will be 2.73. The outcome of the f-test is presented below.

Table 2. f-test results

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12402.884	3	4134.295	27.540	0.000[b]
	Residual	11108.973	74	150.121		
	Total	23511.857	77			
a. Dependent Variable: LAG_Y						
b. Predictors: (Constant), LAG_X3, LAG_X2, LAG_X1						

Source: Data Processing with SPSS 25 (2022)

Referring to the f-test result in Table 4.11, it can be seen that the significance level is 0.000, which is less than the value of 0.05. On the other hand, the value of Fcount is 27.540, which is far greater than Ftable. As a result, with a significance level of 0.000 < 0.05 and f value of 27.54 > 2.73, it can be concluded that return on equity, current ratio, and earnings per share have significant simultaneous influence on the stock price of the consumer goods industry listed on the Indonesia Stock Exchange from 2017 to 2020. Thus, the paper's fourth hypothesis (H4) is accepted. The coefficient of determination is used in this research in order to measure to what extent the dependent variable can be explained by the variation of independent variables. The outcome of the coefficient of determination test is listed below:

Table 3. Coefficient of Determination (Adjusted R^2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.726^a	0.528	0.508	12.25240
a. Predictors: (Constant), LAG_X3, LAG_X2, LAG_X1				

Source: Data Processing with SPSS 25 (2022)

The adjusted R2 value is 0.508, implying that the multiple regression model may account for 50.8 percent of the total variance. Simply put, from 2017 to 2020, 50.8 percent of the stock price of consumer goods industry listed on the Indonesia Stock Exchange is influenced by return on equity, current ratio, and earnings per share. Meanwhile, the remaining 49.2 percent is influenced by other variables that are not discussed in this paper.

DISCUSSION

After conducting the whole tests to analyze the influence of return on equity, current ratio, and earnings per share on stock price of the consumer goods industry listed on the Indonesia Stock Exchange for the years 2017 to 2020 with the help of SPSS 25. The research results show that current ratio and earnings per share have a significant influence on stock price. Conversely, return on equity have no significant influence on stock price. While simultaneously return on equity, current ratio, and earnings per share have significant influence on the stock price. Further, the results are discussed below:

The simultaneous test result shows that return on equity, current ratio, and earnings per share have significant simultaneous influence on the stock price of the consumer goods industry listed on the Indonesia Stock Exchange from 2017 to 2020 which is shown through the result of f-test where the value of Fcount is more than Ftable (27.54 > 2.73), significance value of 0.000 that is more than 0.05. Through this result, it indicates that the fourth hypothesis of this research (H4) is accepted.

In addition, coefficient determination which is shown from the value of adjusted R2 is amounted 0.508 or equals to 50.8% which implies that the multiple linear regression model explains for 50.8% of the total variance. This indicates that the independent variables, namely return on equity, current ratio, and earnings per share, impact 50.8% of the dependent variable, stock price, while the remaining 49.2% is influenced by other variables that are not discussed in this paper.

According to the findings, signaling theory play an important role not only because some of the variables have a significant impact, but also because they serve as the foundation for this research. Starting with the signaling theory, the information presented in the company's financial report serves as a signal for investors to make investment decisions. Investors require relevant and trustworthy information as an analytical tool when making investment decisions. When published information has a positive value (good news), the market trend will respond positively. Furthermore, company management is motivated to present financial information in order to send a signal of prosperity to shareholders in the form of dividend growth and stock price increase.

CONCLUSION

This study was carried out to examine the influence of return on equity (ROE), current ratio (CR), and earnings per share (EPS) on stock price of consumer goods industry listed on the Indonesia Stock Exchanges from 2017 to 2020. Purposive sampling was employed, with 25 companies eligible and taken as samples, resulting in a total of 100 observations used in this study. The data attained is secondary data derived from the respective annual financial reports. The multiple linear regression model serves as the foundation for this study. The regression model is being tested using SPSS 25 and a series of classical assumption tests and hypothesis tests. The brief outcomes of the tests are portrayed below:

1. Return on Equity (ROE) is found to have no significant influence on the stock price of consumer goods industry listed on the Indonesia Stock Exchange from the period 2017 to 2020. This means that although the increment or decrement in the percentage of return on equity may influence the stock price, it will not give a significant influence on it. Therefore, H1 is rejected.
2. Current Ratio (CR) is found to have a significant influence on the stock price of consumer goods industry listed on the Indonesia Stock Exchange from the period 2017 to 2020. This means that any increment or decrement in the current ratio may greatly result in a decrement or increment in the stock price. Therefore, H2 is accepted.
3. Earnings per Share (EPS) is found to have a significant influence on the stock price of consumer goods industry listed on the Indonesia Stock Exchange from the period 2017 to 2020. This means that any increment or decrement in the earnings per share may greatly result in a decrement or increment in the stock price. Therefore, H3 is accepted.
4. Return on Equity (ROE), Current Ratio (CR), and Earnings per Share (EPS) have a significant simultaneous influence on the stock price of consumer goods industry listed on the Indonesia Stock Exchange from the period 2017 to 2020. Therefore, H4 is accepted.

In addition, coefficient determination adjusted R2 amounts to 0.508 or equals 50.8% which implies that the multiple linear regression model explains 50.8% of the total variance. This indicates that the independent variables, namely return on equity, current ratio, and earnings per share, impact 50.8% of the dependent variable, stock price, while the remaining 49.2% is influenced by other variables that are not discussed in this paper. Signaling theory play an important role as the foundation for this research. According to signaling theory, the company management will present financial information to send a signal of prosperity to shareholders in the form of dividend growth and stock price increase. When financial performance improves, the market will appreciate in the form of an increase in stock prices as a result of an increase in market demand. Thus, this research is intended to enhancing understanding and broadening perceptions concerning the influence of return on equity, current ratio, and earnings per share on the stock price.

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