Volume 8 Issue 1 (2023) Pages 337 - 345
Jurnal Mirai Management
ISSN : 2598-8301 (Online)

The Effect Of Profitability On Stock Prices In Companies Incorporated In The Lq45 Index On The Indonesia Stock Exchange

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Abstrak
This research was conducted on companies incorporated in the LQ45 index on the Indonesia Stock Exchange in the 2016-2018 period. This study aims to determine the effect of ROA and ROE on stock prices, both partially and simultaneously. This type of research uses Secondary Data with a quantitative approach. The data collection technique uses documentation techniques sourced from the financial statements of LQ45 index companies for the period 2016-2018 obtained from the Indonesia Stock Exchange website. The population of this study is LQ45 index companies on the Indonesia Stock Exchange for the period 2016-2018. The sample in this study was obtained using Purposive Sampling Method, with a sample number of 30 LQ45 index companies. The analytical methods used in this study are multiple linear regression analysis methods, classical assumption tests, hypothesis tests, and determination coefficient tests using SPSS. The results found that: (1) ROA has a positive and significant effect on stock prices; (2) ROE has a positive and significant effect on stock prices; (3) ROA and ROE simultaneously have a significant effect on stock prices

Keywords: Return on assets (ROA); Return on Equity (ROE); Stock Price.

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INTRODUCTION

Shares in companies may undergo changes. Changes in stock prices are not always positive but can also be negative, so that irregular stock price movements are formed up and down. In addition to the proceeds from the sale of shares used by the company as additional capital, stock price movements are used by market participants to benefit from the results of selling and buying shares. Fluctuating company stocks, high levels of liquidity and market capitality will be included in the LQ45 index.

The LQ45 index as a complement to the JCI, provides an objective and reliable tool for financial analysts, investment managers and investors. Stocks included in the calculation of the LQ45 index are regularly monitored for performance. Every three months an evaluation is carried out on the movement of the order of stocks used in the calculation of the index, while the replacement of stocks that do not meet the criteria will be carried out every six months, namely at the beginning of February and August. One analysis that is often used is fundamental analysis. Fundamental analysis is an analysis of value determinants such as the revenue prospects generated by a company that is seen from the country's economic prospects as well as the company's business environment to find a fair stock price. Fundamental analysis is financial ratio analysis, where one of the financial ratio analysis is the profitability ratio which measures ROA and ROE.

Return On Assets (ROA) is a comparison between net income after tax and assets to measure the total investment take-on. The higher the ROA of a company, the greater the level of profit achieved by the company. Fakhruddin and Hadianto (2001), the greater the value of the company's ROA, the greater the level of profit achieved by the company and the company's shares will be in demand by investors, so the stock price will rise.

Return On Equity (ROE) is a company's ability to generate a return on its total equity. ROE can be obtained by comparing profit after tax with the company's total equity. A high level of ROE indicates that the company can generate high net income, the company's financial performance will be considered good if the company's net profit is high. According to Fakhruddin and Hadianto (2001), the higher the ROE level, the higher the profits obtained for shareholders and the company's shares will be in demand by investors, so the stock price will rise.

This research refers to research conducted by Dewangga Rheza Nugraha and Budi Budaryanto (2016) which proves that ROE has a positive and significant effect on stock prices. Novendri Alfin Ito (2017) who proved that ROA has a positive and significant effect on stock prices. Kannia Aulia Sahari, I Wayan Suartana (2020) proves that ROE has a significant effect on stock prices. Siti Khoiriyah (2018) and Nur Ahmadi Bi Rahmani (2019) actually prove that ROA and ROE have a significant effect on stock prices.

Researchers chose the LQ45 Index in this study because the LQ45 index is the market capitalization value of the 45 most liquid stocks and has a large capitalization value which is an indicator of liquidity. Having a high stock transaction value makes stocks listed on the LQ45 index an option in investment. This location selection is based on the phenomenon of stock price movements that go up and down in LQ45 Index companies on the Indonesia Stock Exchange.

Based on this background, researchers are interested in conducting research entitled "The Effect of Return On Assets (ROA) and Return On Equity (ROE) on stock prices in companies incorporated in the LQ45 index on the Indonesia Stock Exchange (IDX) for the 2016-2018 period".

This study aims to examine the effect of ROA and ROE partially and simultaneously on stock prices in companies incorporated in the LQ45 index on the Indonesia Stock Exchange (IDX).

Financial management is a decision-making process using accounting information to assist organizations in achieving goals and decision-making processes concerning financial matters (Thaha et al., 2022). Suud Husnan and Pudjiastuti, suggest that financial management can be interpreted as discussing investment, spending, and management, assets with several overall goals planned. So, the decision function of financial management can be separated into three main areas, namely investment decisions, spending decisions, and asset management decisions (Hardiyono, 2021).

According to Bodie, et al (2014: 42) shares are part of ownership in a company where each share gives one vote to its owner. Stock prices are prices formed through demand and supply activities carried out by investors. This stock price is volatile, so it can change at any time. Stock price can be said to be an indicator of the company's success where market strength on the stock exchange is shown by the buying and selling transactions of shares in the capital market. The occurrence of the transaction is based on investors' observation of the company's achievements in increasing its profits.

Financial statements are the final product of a series of processes for recording and summarizing business transaction data. Financial statements can also be said to be the result of an accounting process that can be used as a tool to communicate financial data or activities carried out by the company to stakeholders.

The profitability ratio is a ratio that shows the company's ability to generate profits. Return On Assets (ROA) or return on assets is a ratio that shows the return on the use of company assets in generating net income. Return On Equity (ROE) is a ratio that shows the return on the use of a company's equity in generating net income.

In this study, a hypothesis was developed because there are allegations that:

H1: ROA has a positive and significant effect on stock prices in companies incorporated in the LQ45 index.

H2: ROE has a positive and significant effect on stock prices in companies that are members of the LQ45 index.

H3: ROA and ROE simultaneously have a significant effect on the stock price of companies that are members of the LQ45 index.

1. Conceptual Model

Thus, the second part, "Literature Review" investigates the gap that will be exposed and solved. The flow of all the ideas are required to be clear, linked, well-crafted and well developed. It serves as the source of the research question and especially the base or the hypotheses that respond to the research objective. We advise using current and primary sources from trusted international references (top tier-journals).

The conceptual framework of this study is illustrated as the following chart:

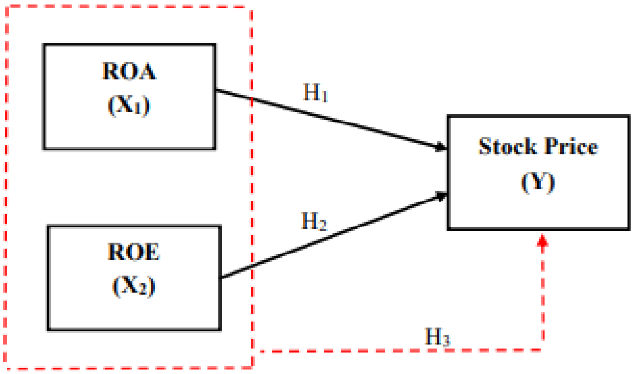


Figure 1. Conceptual Framework

Description: Partial Effect

Simultaneous Influence

METHOD, DATA, AND ANALYSIS

The type of data used in this study is quantitative data. This research uses secondary data sourced from the financial statements of LQ45 index companies for the period 2016-2018 obtained from the Indonesia Stock Exchange website. The population in this study is companies incorporated in the LQ45 index on the Indonesia Stock Exchange totaling 45 companies. Research sampling uses purposive sampling techniques with certain criteria so that the number of samples is 30 companies. To answer the research hypothesis, the data will be analyzed through several stages of testing such as normality tests, multicollinearity tests, and heteroscedasticity tests. To answer the hypothesis proposed in this study, the data will be analyzed using multiple linear regression methods through the F test, t test, and determination coefficient test.

The data analysis process uses multiple linear regression method with the formula:

$Y = a + b_1X_1 + b_2X_2 + e$

Description:

Y: Stock Price
a: Constant
b_1: Regression Coefficient Variable X1
b_2: Regression Coefficient Variable X2
X_1: ROA Variable
X_2: ROE Variable
e: Error

2. Result and Discussion

Result

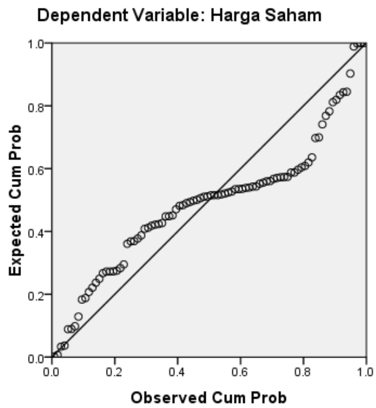
The author needs to report the results in sufficient detail so that the reader can see which statistical analysis was conducted and why, and later to justify their conclusions.

The "Discussion and Analysis" part, highlights the rationale behind the result answering the question "why the result is so?" It shows the theories and the evidence from the results. The part does not just explain the figures but also deals with this deep analysis to cope with the gap that it is trying to solve.

Normality Test

The normality test aims to test whether in a regression model, the dependent variable, the independent variable or both have a normal distribution or not. A good regression model is a normal or near-normal data distribution. Normality detection is done by looking at the spread of data (points) on the diagonal axis.

Figure 2. Normal P-P Plot



The results of the normality test study show that the points spread around the diagonal line and the spread follows the diagonal line. So it can be concluded that the data in the regression model with the normality test are normally distributed.

Multicollinearity Test

The Multicollinearity Test aims to test whether in the regression model a correlation is found between independent variables. A good regression model is free from multicollinearity. The method used to detect the presence or absence of multicollinearity in the regression model can be seen from the value of Tolerance and Variance Inflation Factor (VIF). If the Tolerance value > 0.1 and the VIF value < 10, then multicollinearity does not occur and vice versa.

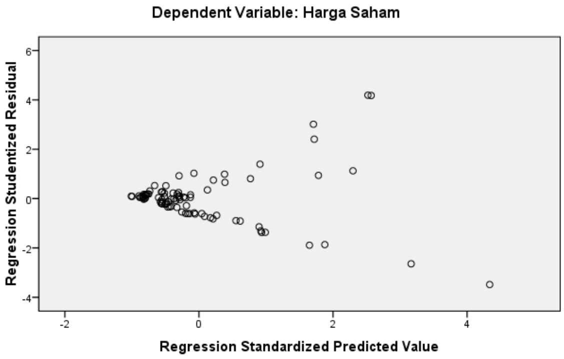
Table 1. Coefficients[a]

		Collinearity Statistics	
Model		Tolerance	VIF
1	Return On Assets	.459	2.179
	Return On Equity	.459	2.179

a. Dependent Variable: Stock Price

Heteroscedasticity Test

Figure 3. Scatterplot



From the results of the heteroscedasticity test, it can be seen that on the scatterplot graph there is no clear pattern and the points spread randomly above and below the number 0 on the Y axis, it can be concluded that there is no heteroscedasticity problem in this study.

Multiple Linear Regression Test

Table 2. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.784	2.007		-.391	.697
	Return On Assets	.434	.196	.275	2.211	.030
	Return On Equity	.328	.105	.388	3.125	.002
a. Dependent Variable: Stock Price						

Multiple linear regression results as follows:
Y= -0,784 + 0,434X1 + 0,328X2

The above equation can be explained as follows: A constant number of -0.784 indicates that when the variables Return On Assets and Return On Equity are relatively unchanged, the Stock Price decreases by -0.784. The regression coefficient for Return On Assets of 0.434 shows that when Return On Assets increases by Rp1, the Share Price increases by 0.434, and vice versa. The regression coefficient for Return On Equity of 0.328 shows that when Return On Equity increases by Rp1, the Share Price increases by 0.328, and vice versa.

Test Coefficient of Determination (R Square)

Table 3. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.619[a]	.383	.369	12.75482
a. Predictors: (Constant), Return On Equity, Return On Assets				
b. Dependent Variable: Stock Price				

The R Square (R^2) value obtained is 0.383 or 38.3%. This shows that the variation of independent variables used in the limited model explains that Stock Price is influenced by Return On Assets (X1), Return On Equity (X2), and this means that 61.7% of Stock Price (Y) is influenced by factors other than this research model.

F Test

Table 4. ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8794.730	2	4397.365	27.030	.000[a]
	Residual	14153.637	87	162.685		
	Total	22948.367	89			

a. Predictors: (Constant), Return On Equity, Return On Assets

b. Dependent Variable: Stock Price

The result obtained is a calculated F value of 27.030 with a probability of 0.000 much smaller than the significant value of 0.05 (real level 5%), because the value of sig. 0.000 < 0.05, then the ROA and ROE variables in this study together (simultaneously) have a significant effect on stock prices.

T Test

Table 5. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.784	2.007		-.391	.697
	Return On Assets	.434	.196	.275	2.211	.030
	Return On Equity	.328	.105	.388	3.125	.002

a. Dependent Variable: Stock Price

H1, ROA has a positive and significant effect on Share Price, accepted. This is obtained from the results of moderation regression analysis, namely t-calculate ROA of 2.211 and a significant ROA value of 0.030 smaller than the significance level (0.030 < 0.05). So it can be concluded that the variable ROA has a positive and significant influence on stock prices. While the value of the ROA regression coefficient is 0.434, meaning that if the ROA level increases by Rp1, the stock price will increase by 0.434.

H2, ROE has a positive and significant effect on the price of shares received. This is obtained from the results of moderation regression analysis, namely t-calculate ROE of 3.125 and significant ROE value of 0.002 smaller than the significance level (0.002 < 0.05). So it can be concluded that ROE has a positive and significant influence on stock prices. While the value of the ROE regression coefficient is 0.328, meaning that if the ROE level increases by Rp1, the stock price will increase by 0.328.

The Effect of ROA on Stock Prices

According to Hery (2016), Return On Assets (ROA) is a ratio that shows the results of using company assets in creating net income. In other words, this ratio is used to measure the amount of net profit generated from each rupiah of funds embedded in total assets. The higher the return on assets, the higher the amount of net profit that will be generated. This means that an increase in the value of ROA will increase the selling value of the stock, so the stock price will also rise. The higher the ROA value means the more efficient the use of assets made by the company to generate profits for investors. The high value of ROA shows that management performance has also increased in managing company assets to generate profits. The increase

in the company's net profit, the ROA value will also increase, so investors will be interested in investing their capital. That way, the stock price also rose.
The ROA variable has a t-count value of 2.211 and an ROA significance value of 0.030 is less than the significance level (0.030 < 0.05). So it can be concluded that the variable ROA has a positive and significant influence on stock prices. While the value of the ROA regression coefficient is 0.434, meaning that if the ROA level increases by Rp1, the Stock Price will increase by 0.434. The results of this study accept H1 means that ROA has a positive and significant effect on stock prices in companies incorporated in the LQ45 index. In other words, increasing and decreasing ROA will affect the stock price.
The results of this study are in line with those conducted by Novendri Alfin Ito (2017) stating that ROA has a positive and significant effect on stock prices. This research is almost similar to that conducted by Siti Khoriyah (2018) and Nur Ahmadi Bi Rahmani (2019) stating that ROA has a significant effect on stock prices. However, this research is not in line with research conducted by Kannia Aulia Sahari, I wayan Suartana (2020) states that ROA has no effect on stock prices.

The Effect of ROE on Stock Prices
According to Hery (2016), Return On Equity (ROE) is a ratio that shows the return on the use of company equity in creating net income. In other words, this ratio is used to measure the amount of net profit generated from each dollar of funds embedded in total equity. The higher the return on equity, the higher the amount of net profit that will be generated. This means that an increase in the value of ROE will increase the selling value of the stock, so the stock price will also rise. The higher the ROE value means the more efficient the use of equity by the company to generate profits for investors. The high value of ROE shows that management performance has also increased in managing company assets to generate profits. The increase in the company's net profit, the ROE value will also increase, so investors will be interested in investing their capital. That way, the stock price also rose.
The ROE variable has a t-count value of 3.125 and an ROE significance value of 0.002 is less than the significance level (0.002 < 0.05). So it can be concluded that ROE has a positive and significant influence on stock prices. While the value of the ROE regression coefficient is 0.328, meaning that if the ROE level increases by Rp1, the stock price will increase by 0.328. The results of this study accept H2 means that ROE has a positive and significant effect on stock prices in companies incorporated in the LQ45 index. In other words, increasing and decreasing ROE will affect the stock price.
The results of this study are in line with those conducted by Dewangga Rheza Nugraha and Budi Budaryanto (2016) stating that ROE has a positive and significant effect on stock prices. This research is almost similar to that conducted by Siti Khoriyah (2018), Nur Ahmadi Bi Rahmani (2019), and Kannia Aulia Sahari (2020) stating that ROE has a significant effect on Stock Price. However, the results of this study are not in line with research conducted by Novendri Alfin Ito (2017) stating that ROE has a negative and insignificant effect on stock prices.

The Effect of ROA and ROE on Stock Prices
Based on the test results in Table 4. Test F is known F-count value of 27.030 with a probability value of 0.000. This shows that the resulting value is smaller than the significance level of 0.05 (0.000 < 0.05). So it can be concluded that ROA and ROE simultaneously have a significant effect on stock prices. The results of this study accept H3 means that ROA and ROE simultaneously have a significant effect on stock prices in companies incorporated in the LQ45 index. In other words, the increase and decrease in ROA and ROE will affect the stock price.

CONCLUSION

The conclusion of this study is that ROA and ROE have a positive and significant effect on stock prices, both partially and simultaneously. The results of this study confirm that the increase and decrease in ROA and ROE will affect the stock price.

The results of this study suggest to companies, companies should pay attention and increase their profitability to raise positive signals for investors to invest. The more it increases investor interest or demand, the higher the company's stock price will be. For the next researcher, it is expected when conducting research on financial ratios to be more complete in the selection of variables. In addition, it is better to use a longer research period so that it is expected to obtain more comprehensive results from the research that has been done.

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