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Industry Financial Condition: On The Impact Of Stock Prices

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Abstrak
the financial performance of industrial companies. This study was conducted to test financial performance represented by the ratio of ROA, DER, and CR to stock prices in 10 sample industrial companies listed on the Indonesia Stock Exchange in the 2015-2021 period. The data used are secondary data of financial statements published using the purpose sampling method with a quantitative approach and the data tested using E-Views 13. The results showed that simultaneously the financial performance represented by ROA, DER, and CR did not affect the stock price of the industrial companies that were the research sample. Partially, only DER has an effect on the stock price, while ROA and CR have no effect. So it is concluded that stock price movements are not only determined by financial performance conditions but other fundamental factors need further research

Keywords: ROA, DER, CR, Stock Price

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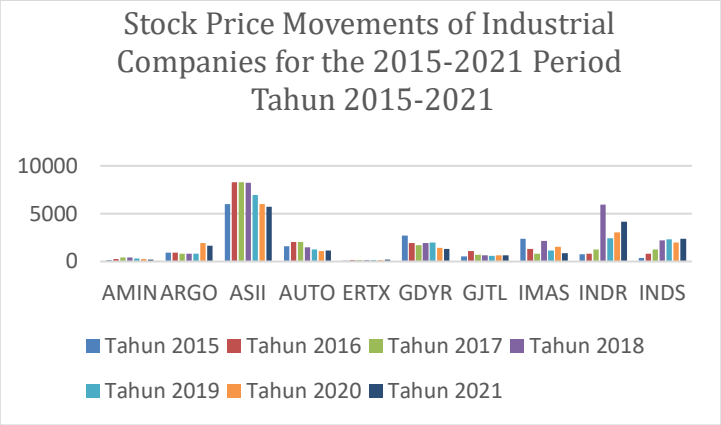
INTRODUCTION

Based on the Central Bureau of Statistics related to Indonesia's National Income, in the period 2015 to 2021, the GDP growth rate of the manufacturing industry in Indonesia decreased to 4.33% in 2015 to reach -2.93% in 2020, then began to rise again in 2021. The effects of the global crisis and the COVID-19 pandemic became a problem that resulted in the decline in GDP. Many companies have experienced a decline in financial performance as a result of these problems. The decline in the rate of industrial GDP creates negative sentiment towards investors' investment perceptions. Because investors invest in the hope of obtaining profits in the long term or going concern in sustainability. One of these measures is seen in the value of the Company's shares, with good financial performance it is expected that the value of the shares will be good. Financial performance is an indicator of a Company in generating profits for shareholders. Financial performance can be seen through the financial statements of each Company. Financial statements are the result of the accounting process which will later be used as a tool in communicating financial data to interested parties (Hery, 2015). Financial performance is an analysis in seeing a company in implementing financial rules in accordance with applicable standards (Fahmi, 2014.).

In making an investment by investing capital, financial information is needed by investors to conduct analysis related to the Company's financial condition which will later be used in making decisions with financial ratios (Hamdani et al., 2016). Financial performance is measured through financial ratios and will later be used in determining stock prices (Rahmi & Dahar et al., 2021). Stocks are one of the most popular instruments traded by investors.

Because of easier access to trade transactions and good security and supported by clear government regulations, stock trading is in great demand by all groups (Tantra Notama et al., 2021). High yields also make stocks a special attraction by investors. Interest rates affect investors' decisions on stock investments even though the returns are high with high risks (Savira et al., 2016).

Graphic 1. Stock Price Movements of Industrial Companies for the 2015-2021 Period



Source: Data Process

Based on secondary data from industrial companies in the period 2015 to 2021, the stock price movements of several sample industrial companies experienced unstable movements due to increases and decreases. The upward and downward trend in stock prices is also followed by increases and decreases in financial performance which in this study financial performance is represented by ROA, DER, CR ratios. Research related to stock prices that have been conducted by many researchers before has different results so that there is interest in researchers in further researching related to financial performance and stock prices with different periods and different samples seen from the profitability ratio in making Investment decisions investors consider that profitability is very important in measuring how much the Company is able to generate profits.

The profitability ratio shows the efficiency of the Company because of the amount of profit obtained from the sale or investment of the Company (Kasmir, 2013). Based on Hutapea (2017) research shows that ROA does not affect stock prices due to non-optimal profit conditions. Meanwhile, (Dika et al., 2020) produced research that ROA has a significant positive effect on stock prices because high ROA indicates that the Company's profitability level is high. (Hasibuan et al., 2020) states that the Retention Ratio to Stock Price has a significant influence. In contrast to Abror (2022) research which states that there is no effect of Retention Ratio on Stock Price.

The next ratio in influencing stock prices is the liquidity ratio to find out how liquid the Company is in covering short-term debt (Kasmir, 2013). Based on research by Sudarsono & Soekotjo (2020) and Hanie & Saifi (2018) shows that CR has a significant influence on the Company's stock price, because an increased CR will increase investor confidence in investing, investors can conclude that a good CR shows that the Company is able to pay its short-term debt on time every year. Meanwhile, Maulita & Mujino (2019) and (Natalia et al., 2020) show that CR has no influence on the Company's share price because the liquidity generated is low so that the Company does not have funds to pay its debts, but high liquidity does not necessarily describe the Company's good condition either.

In addition to profitability ratios and liquidity ratios, investors also need to analyze the solvency ratio used in paying off all existing obligations both in the long and short term if the company is liquidated (Kasmir, 2013). This study uses DER as a representative of the solvency ratio. Previous research by maulita & mujino (2019) and Youriza, et al (2020) resulted in DER having no effect on stock prices. While (Arifin & agustami et al., 2016) and (Natalia et al., 2020) produced research that DER negatively affects stock prices because high DER indicates that

the Company is increasingly using debt in working capital. Because the differences that have been produced by previous researchers are related to financial performance to stock prices, further research was carried out with different research periods and samples to find out whether the relationship between stocks and financial performance is mutually influential or not.

Literature Review

Stock Price

Stock prices in trading on the Indonesia Stock Exchange (IDX) are formed from trading supply and demand, if demand increases, stock prices tend to increase and vice versa (Panca & Siswanti, 2022). One of the factors that affect the stock price is the development of the Company's financial performance which can be seen from every financial ratio owned by the Company. In determining the amount of the share price, it can be seen from the closing price of the shares and can be formulated as follows: Supriyadi (2022)

$$Price\ Earning\ Ratio = \frac{\text{Stock Prices}}{\text{EPS}}$$

$$Earning\ Price\ Ratio = \frac{\text{Net Profit}}{\text{Outstanding Stock}}$$

Many factors affect stock prices, according to (Brigham et al., 2019) several factors affect stock prices, one of which is earnings per share, interest rates, the amount of cash dividends distributed, the amount of profit obtained by the Company, and the level of risk and return.

Profitability Ratio

This ratio is used to determine the ability of a company to generate profits and this ratio provides the level of management effectiveness in a company. This ratio can be used to measure how much a company can generate profits (Wahyuni et al., 2020). According to (Samryn, 2015.), profitability ratio is a comparative analysis of financial data that produces company financial information that is useful for users of financial statements. The profitability ratio has several types of ratios including Return On Assets (ROA), Gross Profit Margin (GPM), Operating Profit Margin (OPM), Return On Equity (ROE), and Net Profit Margin (NPM) (Cashmere, 2018). In this study, ROA is used as an indicator of the profitability performance of industrial companies. ROA can be calculated using the formula (Cashmere, 2018):

$$Return\ on\ Assets = \frac{Net\ Profit}{Total\ assets}$$

Liquidity Ratio

This ratio is used to describe the ability of a company to meet short-term obligations (Kasmir, 2013). The liquidity of a company is used to determine the ability of a company to pay off short-term obligations and fund all its operational activities (Bawamenewi et al., 2019). Liquidity ratios are often used by investors in measuring the company in paying its obligations or maturing debts, paying its short term obligations with current assets owned, paying short-term debts without taking into account receivables or inventories, Measuring or the amount of inventory with working capital owned by the Company, Measuring the availability of cash to pay debt, cash and debt planning (Kasmir, 2013). The types of liquidity ratios that are often used are Current Ratio, Cash Ratio and Quick Ratio (Kasmir, 2013). In this study, the ratio used to represent financial performance in liquidity is the Current Ratio with the formula (Kasmir, 2013)

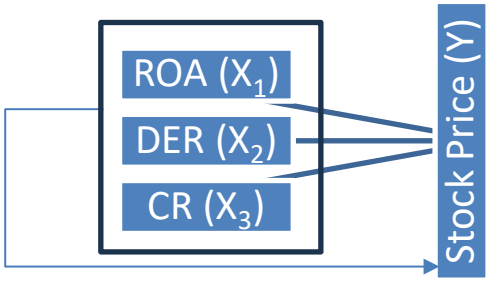
$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liability}$$

Solvency Ratio

This ratio is used to determine how much amount of funds will be provided by borrowers with company owners so that it serves to find out how much of the company's capital is used as debt collateral (Kasmir, 2013). Some factors that will affect DER include stability in sales, tax rates, financial control, market conditions, leverage and the attitude of the Company's management (Brigham et al., 2019). One of the influencing factors is financial leverage because leverage can show how the Company's liabilities compare and equity in company funds to meet all obligations that are the Company's responsibility (Kuswanto et al., 2013). In this study DER is used as a representative of the solvency ratio with the formula (Kasmir, 2013)

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Liability}{Total\ Equity}$$

Framework



Hypotheses based on the research framework can be explained as follows:

H_1 : ROA affects Stock Price

H_2 : DER affects Stock Price

H_3 : CR affects Stock Price

H_4 : ROA, DER, CR simultaneously affect the Stock Price

Method, Data, and Analysis

In this study, the method used uses a quantitative approach in analyzing financial performance represented by the ratio of ROA, DER, and CR to stock prices in industrial companies with a sample of 10 industrial companies that have stable ROA, DER, CR values with a research period of 2015-2021. The sample was selected using purpose sampling with industrial companies listed on the IDX and are large industrial companies and report financial ratios regularly during the study period. Company Data is shown as shown in table 1

Table 1. Research Sample

No	CODE	Emiten
1	AMIN	PT Ateliers Mecaniques D Indonesie Tbk.
2	ASII	Astra International Tbk
3	AUTO	Astra Otoparts Tbk
4	GDYR	Goodyear Indonesia Tbk
5	GJTL	Gajah Tunggal Tbk
6	IMAS	Indomobil Sukses Internasional Tbk
7	INDS	Indospring Tbk
8	ARGO	Argo Pantes Tbk
9	ERTX	Eratex Djaja Tbk
10	INDR	Indorama Synthetics Tbk

Table 2. Ratio Size Concept and Indicator

Rasio	Konsep	Indikator
Stock	Share prices formed as a result of demand and supply inevstors in the capital market (Panca & Siswanti, 2022)	Stock price closing at the end of the period
ROA (Return on Asset)	Ratio in measuring the ability of a company to use all assets to generate profits (Kasmir, 2013)	(Net Profit/Total asset) x 100%
CR (Current Ratio)	Ratio in measuring the ability of a company to pay off short-term debt (Kasmir, 2013)	(Current asset/Current Liability)x100%
DER (Debt to Equity Ratio)	The ratio in measuring company assets is financed by debt (Kasmir, 2013)	(Total Libalility/Total Equity)x100%

Result and Discussion

Model Selection Analysis

In regression models using panel data can be done with three approaches Coomon Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). The three models are used for data estimation panel regression models with the best results will be taken by the model in analyzing. The Chow Test, Hausman Test and Legrange Multipler Test are used to find out which model to use.

Table 4. Model selection

Test	Result	Decision
Chow Test	Prob.>0.05 Prob.<0.05	CEM FEM
Hausman Test	Prob.>0.05 Prob.<0.05	REM FEM
Legrange Multiplier Test	Prob.>0.05 Prob.<0.05	CEM REM

Source: Savitri et al., 2021

Sample selection test results

Chow Test Results

Table 4. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	32.339947	(9,56)	0.0000
Cross-section Chi-square	125.865978	9	0.0000

Source: Data Process

The chow test is used to compare and choose the best between the Common Effect Model or Fixed Effect Model. Decision Making is seen from the probability value (p) for cross-section F. If the value of p >0.05 then the model to be selected is the Common Effect Model (CEM) model and if p > 0.05 then the model to be chosen is the Fixed Effect Model (FEM). Based on the Chow cross section F and Chu Square cross section test tables, prob values of 0.0000 < 0.05 so that they reject the null hypothesis, then the FEM model is chosen, because the FEM selected must be continued with the hausman test.

Hausman Test Results

Table 5. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.833291	3	0.2800

Source: Data Process

The hausman test is performed to compare and select Fixed Effect and Random Effect models. Decision Making is seen from the probability value (p) of random cross section. If the value of p>0.05 then the Random Effect Model (REM) is chosen and if the value of p<0.05 then the Fixed Effect Model (FEM) is selected. Based on the Hausman table, the prob value of 0.2800 > 0.05 is selected, then the selected is the REM model, then it must be continued with the LM test.

LM Test Results

Table 6. LM Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	99.03422 (0.0000)	1.577576 (0.2091)	100.6118 (0.0000)
Honda	9.951594 (0.0000)	-1.256016 (0.8954)	6.148702 (0.0000)
King-Wu	9.951594 (0.0000)	-1.256016 (0.8954)	5.321035 (0.0000)
Standardized Honda	12.48396 (0.0000)	-1.092823 (0.8628)	4.276181 (0.0000)
Standardized King-Wu	12.48396 (0.0000)	-1.092823 (0.8628)	3.279207 (0.0005)
Gourieroux, et al.	--	--	99.03422 (0.0000)

Source: Data Process

LM tests are performed to determine the REM model better than the Common Effect Model and to ensure that the FEM and REM model results are inconsistent with previous tests. Based on the LM Test table, the Breusch-Pagan prob value of 0.0000 < 0.05 so that rejecting the null hypothesis, the best model is chosen as the REM model. Based on the Chow Test, Hausman test and LM test, the best model in this study is REM.

Classical Assumption Test

According to Gujarati & Porter (2009), the Generalized Least method is used if the equation satisfies the classical assumption of Square (GLS). In the eviews application, the estimation model that uses the GLS method is the Random Effect Model, while for Common Effect (CE) and Fixed Effect (FE) using Ordinary Least Square (OLS). Based on the results of the sample selection test for the selected regression equation of the Random Effect Model model, there is no need to test classical assumptions (Gujarati & Porter, 2009). Verbek (2000), Gujarati (2003), Wibisono (2005) concluded that panel data has the advantage that panel data has implications that do not have to be tested for classical assumptions such as normality tests and autocorrelation tests. Because according to ajija et al (2011) the normality test is only used if the number of observations is <30 to find out whether the term error is close to the normal distribution because if the observation >30 does not need to be tested for normality because the sampling distribution of the term error is close to normal, in this study the number of observations is 70 then the normality test can be ignored.

Sarwoko (2005) asserts that autocorrelation tests can be used to test whether linear regression models have a correlation between errors in period t and previous errors. The Generalized Least Square (GLS) method is a method to eliminate first-order autocorrelation in regression equations and its use can suppress the existence of autocorrelation that arises in the estimation of error variance so that the GLS method autocorrelation problem can be overcome. Gujarati (2003) also revealed that the use of the GLS method can suppress and minimize the autocorrelation that appears in the OLS formula due to the result of estimating error variances.

Multicollinearity Test

Shows that there is no high correlation value between independent variables and the value does not exceed 0.90 (Ghozali, 2013) so that the study can be concluded that it does not have multicollinearity between free variables.

Table 7. Multicollinearity Test Results

	ROA	DER	CR
ROA	1.000000	0.362640	-0.003038
DER	0.362640	1.000000	0.3633134
CR	-0.003038	0.363313	1.0000000

Source: Data Process

Multiple Regression

Table 8. Multiple Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1676.236	677.4293	2.474407	0.0160
ROA	-75.55974	198.5118	-0.380631	0.7047

DER	5893.113	2424.064	2.431088	0.0178
CR	112.5272	197.3327	0.570241	0.5705

Effects Specification		
	S.D.	Rho
Cross-section random	1775.449	0.8295
Idiosyncratic random	804.9755	0.1705

Weighted Statistics			
R-squared	0.101132	Mean dependent var	315.2355
Adjusted R-squared	0.059646	S.D. dependent var	835.8075
S.E. of regression	811.1713	Sum squared resid	42769923
F-statistic	2.437725	Durbin-Watson stat	1.344832
Prob(F-statistic)	0.072450		

Unweighted Statistics			
R-squared	0.095483	Mean dependent var	1864.333
Sum squared resid	2.58E+08	Durbin-Watson stat	0.222971

Source: Data Process

Regression Equation

Y= 1676.23 – 75.56X1 + 5893.11X2 + 112.53X3

Test the hypothesis

H_0: no effect of x on y (Prob>0.05)

Ha: there is an influence of x on y (Prob<0.05) obtained a probability value of 1.35>0.05 so that H_0 is accepted, simultaneously there is no influence of ROA, DER, CR on Stock Price

partially

The probability value of ROA which is 0.7>0.05 has no effect on the stock price

DER probability value is 0.02<0.05 there is an influence on the stock price,

CR probability value is 0.6>0.05, there is no influence on the stock price;

Conclusion and Suggestion

The conclusions of this study are:

1. Partially, Return On Asset (ROA) does not have a significant effect on the share price of industrial companies on the Indonesia Stock Exchange for the 2015-2021 period with a probability value of 0.7>0.05 H0 received Ha rejected
2. Partially, the Debt on Equity Ratio (DER) affects the share price of industrial companies on the Indonesia Stock Exchange for the 2015-2021 period with a probability value of 0.02<0.05 Ha received H0 rejected
3. Partially, the Current Ratio (CR) does not have a significant effect on the share price of industrial companies on the Indonesia Stock Exchange for the 2015-2021 period with a probability value of 0.6>0.05 H0 received Ha rejected

Simultaneously obtained a probability value of 1.35>0.05 so that H0 is accepted, simultaneously there is no influence of ROA, DER, CR on the Share Price of industrial companies on the Indonesia Stock Exchange for the 2015-2021 period.

Suggestion

Based on the results of the research, there are several suggestions for further research in order to get better research results and for internal and external parties of the Company, namely:

1. For companies, it can further improve financial performance in the company to increase investor confidence in investing in the company.
2. For investors must pay attention and take into account other factors that can affect the stock price to invest.
3. Further research is expected to conduct research by adding wider research objects, not only industrial companies, can use a longer observation period. In addition, it can use several other factors such as interest rates, foreign exchange rates, and inflation rates.

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