



The Effect of Debt to Equity Ratio Analysis, Return on Equity, and Earning Per Share on the Stock Prices of Companies Incorporated in the Jakarta Islamic Index (JII)

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Abstract:

The stock price is the main reason for investors to buy shares as a form of investment in the company. Therefore, investors need information about the factors that affect stock prices either directly or indirectly. The information needed is the company's financial statements. This study examines the effect of Debt to Equity Ratio, Return On Equity, and Earning Per Share on Stock Prices incorporated in the Jakarta Islamic Index (JII) in 2018-2020. The data used is the company's financial statements for 3 consecutive years incorporated in the Jakarta Islamic Index. The analysis method used is multiple linear regression, t-test, and F test with a significance level of 5%, classical assumption test.

Keywords: Stock Price, Debt to Equity Ratio (DER), Return On Equity (ROE), Earning Per Share (EPS).

INTRODUCTION

Investment is an activity of placing funds in productive assets with the hope of bringing benefits to economic growth and the wider community. The level of economic growth and the slow pace of development is influenced by the dynamics of capital investment.

For the sake of wider benefits, cooperation is needed between those who have capital and those who can do business. Cooperation to develop investment can be done through a forum or institution called the capital market. The capital market is an alternative source of funds besides banking, the development of the capital market shows that investors' confidence in investing in the Indonesian capital market is quite good.

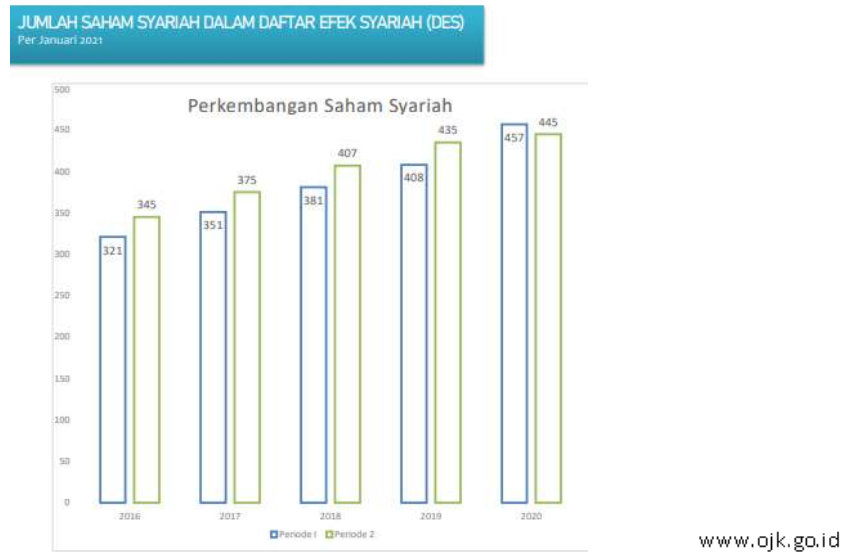
The rapid development of the capital market is accompanied by the presence of a capital market that is run with the concept of sharia. The growth of the Islamic capital market in Indonesia is illustrated by the increasing public interest in the instruments offered, namely sharia shares which have increased every year since the implementation of the sharia-based capital market.

The movement of the stock price index can describe the condition of the development of sharia shares, through fluctuations or changes in stock prices that reflect new information obtained from the stock exchange, making it easier for investors to make decisions to invest.

Information refers to the efficiency of a market, where the profit or rate of return that investors will get is a reflection of the required information in the form of financial statements.

The information contained in the company's financial statements provides financial statement analysis to assess the company's performance that reflects the company's fundamentals to provide a basis for investment decisions.

In analyzing or measuring this information, investors can use several ratios to assess the company's liquidity, solvency, and profitability.



Picture 1. Syariah's Stock Development

Ratio analysis is a fundamental analysis to calculate the intrinsic value of a company that can be realized by the stock price and is used to measure the guarantee of funds to be invested in the company. A decrease in interest rates will reduce the burden on issuers and can increase stock prices and can divert investors from investing in savings to the capital market.

Based on the description above, the researcher will examine "The Effect of Debt to Equity Ratio Analysis, Return On Equity, and Earning Per Share on the Stock Prices of Companies Incorporated in the Jakarta Islamic Index (JII)"

THEORETICAL FRAMEWORK AND HYPOTHESES

Debt to Equity Ratio

Debt to Equity Ratio (DER), is the ratio used by comparing all debt with all equity. This ratio is to find out the number of funds provided by creditors with company owners. This ratio is used to find out each rupiah of own capital that is used as collateral for the debt.

Formula:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Ekuitas}}$$

Return On Equity

This ratio assesses the extent to which a company uses its resources to be able to provide a return on equity (Irham Fahmi, 2011: 137). This ratio measures the company's ability to generate profits on the book value investment of shareholders (Brigham, Enhardt, 2005:225). This ratio describes what percentage of net profit is obtained when measured from own capital. The higher this ratio the better because it means the position of the owner of the company is getting stronger, and vice versa.

Formula :

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average equity}}$$

Earning Per Share

The ratio shows the share of profit for each share. EPS describes the company's profitability which is reflected in each share. The higher the EPS value, the greater the profit provided to shareholders and the possibility of increasing the number of dividends received by shareholders (Darmadji and Fakhruddin, 2011:154). EPS is a form of providing benefits given to shareholders from each share owned. (Irham Fahmi 2012:52).

It can be concluded that EPS is the company's ability to generate profits per share to shareholders for each share owned.

Formula :

$$\text{Earning Per Share} = \frac{\text{Earning After Tax}}{\text{Jumlah saham beredar}}$$

Stock price

According to Martono (2007: 240), stock prices are a reflection of investment decisions, funding (including dividend policy), and asset management. The share price is the selling price from one investor to another after the shares are listed on the stock exchange, both on the main exchange and OTC (Over the market). The stock price can be defined as the stock price formed from the interaction between sellers and buyers who are motivated by their hopes of getting company profits.

In general, the decision to buy or sell shares is determined by the comparison between the estimated intrinsic value and its market price (Abdul Halim, 2006:31). There are three guidelines in assessing stock prices, namely:

- If the stock market price exceeds the intrinsic value of the stock, then the stock is considered overvalued (the price is too high). These shares should be avoided or the sale of shares should be carried out because conditions like this in the future may lead to market corrections.
- If the stock market price is the same as its intrinsic value, then the stock price is considered fair and in a state of equilibrium. It is recommended that market participants under these conditions do not make transactions to buy or sell the shares in question.
- If the stock price is less than its intrinsic value, then the stock is said to be undervalued (the price is too small).

Table 1. Previous Research

Researcher Name	Year	Title	Variables Used	Results Obtained
Michael Aldo Calo	2011	Effect of Return on Equity, Dividend Payout Ratio and Price to Earnings Ratio on Stock Return	<u>Dependent Variable:</u> Stock returns <u>Independent Variable:</u> ROE, DPR, PER	- ROE and DPR have a positive and significant effect on stock prices - PER does not affect stock prices
Abied Luthfi Safitri	2013	Effect of Earning Per Share, Price Earning Ratio, Return On Assets, Debt to Equity Ratio, and Market	<u>Dependent Variable:</u> Stock price <u>Independent Variable:</u>	-Partially, only EPS, PER, and MVA have a significant positive effect on stock prices

		Value on Stock Prices in JII	EPS, PER, ROA, DER, MVA	-ROA and DER have no significant effect
Tri Arvinta Septyanawati	2013	Analysis of the Effect of Financial Ratios on Stock Prices in Manufacturing Companies in the Automotive Sector Listed on the Indonesia Stock Exchange (IDX)	<u>Dependent Variable:</u> Stock price <u>Independent Variable:</u> NPM, ROA, ROE	-Partially there is no significant effect between NPM and stock prices -Partially there is a significant effect between ROA and ROE with stock prices -NPM, ROA and ROE simultaneously have a significant effect on stock prices
		The Effect of Dividend Per Share, Debt to Equity Ratio, Earning Per Share, Return on Assets and Independent Board of Commissioners on Share Prices in LQ45 Companies on the Jakarta Stock Exchange (IDX)	<u>Dependent Variable:</u> Stock price <u>Independent Variable:</u> DPS, DER, EPS, ROA, and Board of Commissioners	-DPS has a negative and insignificant effect on stock prices -DER, EPS, and ROA have a positive and significant effect on stock prices. -DER and the Board of Commissioners have a positive and insignificant effect on stock prices

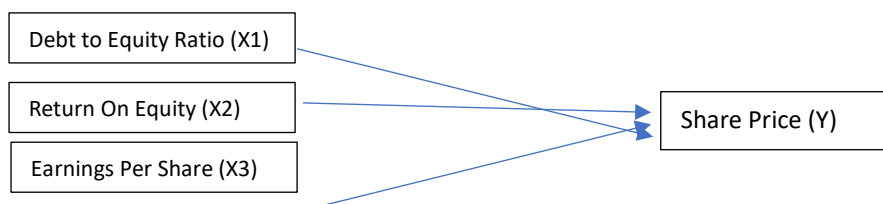


Figure 1. Conceptual Framework

Based on the main problems that have been formulated and several theoretical studies presented, the hypothesis in this study is that the Debt to Equity Ratio, Return On Equity, and Earning Per Share affect the stock price of JII companies listed on the Indonesia Stock Exchange either simultaneously or partially.

RESEARCH METHODOLOGY

This research is quantitative because it has an important purpose in measuring, to see how big the fundamental relationship is between empirical observations and quantitative data results.

The sample size for statistical surveys is calculated using a formula to determine how large sample size is needed from a population to achieve results with an acceptable level of accuracy. In general, researchers seek a sample size that will produce findings with at least a 95% confidence level and a 5 percentage point margin of error. Many sample surveys are designed to produce a smaller margin of error.

Population and Sample

The population of this study is companies that are consistently incorporated in the Jakarta Islamic Index from 2018 to 2020. There are 11 companies listed in the Jakarta Islamic Index. The criteria in the selection are companies registered in the Jakarta Islamic Index for 3 consecutive years, from 2018 to 2020.

Data collection is a process of collecting primary and secondary data, in a study. The data collection method in this study is a documentation method where data collection techniques are not directly addressed to the research subject (Suhartono, 2009). This method is carried out by recording or collecting data listed in the Indonesia Capital Market Directory in the form of financial statements of companies that are members of the Jakarta Islamic Index (JII) for 2018-2020.

Definition and Operational Variables

The operational definition is operationally defined based on the observed characteristics, enabling researchers to make careful observations or measurements of an object or phenomenon.

In this study, the variables studied were DER (X1), ROE (X2), and EPS (X3), as independent variables, and stock price as the dependent variable (Y).

The tool used to determine the effect of the independent variable on the dependent variable is multiple linear regression.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

1. Debt to Equity Ratio (DER)

This ratio is used to find out the funds provided by creditors and company owners. The function of this ratio is to find out each rupiah of own capital that is used as collateral for the debt. If this ratio is getting bigger then the company will be good and vice versa. This ratio shows the feasibility and financial risk of the company.

2. Return On Equity (ROE)

In measuring the company's performance, investors usually look at the company's performance from the company's financial ratios. ROE is one of the indicators used by investors to assess the level of profitability before investing. ROE is used to see the company's ability to generate profits, efficiency in managing assets, and using debt for business activities.

3. Earnings Per Share (EPS)

The earnings per share ratio, also known as the book value ratio, is a measure of management in achieving profits for investors. Prospective shareholders are attracted by large earnings per share because this is one indicator of the success of a company. EPS can be known from financial information that comes from the balance sheet and income statement of the company.

4. Stock price

The share price is the market value which is the price of shares on the stock market at a certain time determined by market participants and determined by the relevant supply and demand in the capital market. Stock prices can change in minutes or even seconds. Market prices are influenced by external factors, investors, and the company's financial performance.

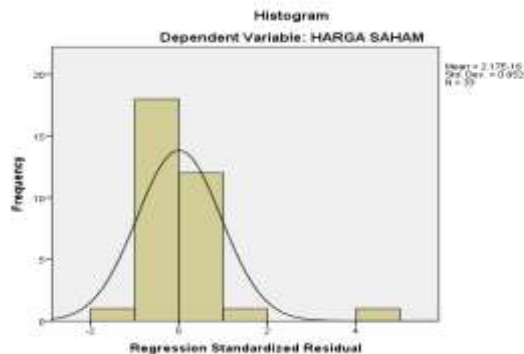
Data analysis

Data analysis in this study uses statistical analysis, to calculate the effect of each variable on stock prices. Researchers used multiple regression, which first tested the classical assumptions.

RESULTS AND DISCUSSION

To see the effect of the dependent variable (Y) on the independent variables (X1, X2, and X3), multiple regression analysis was used and the data used were secondary. To qualify for the multiple linear models, it is necessary to test some classical assumptions.

Figure 2. Normality Test Histogram Graph



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Figure 3. P-Plot Normality

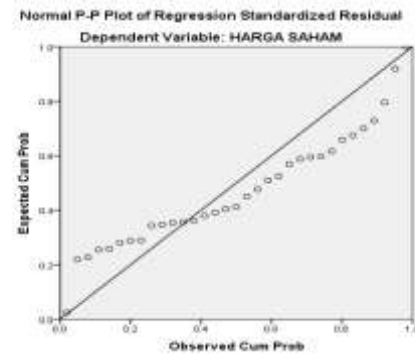


Table 2.
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.922 ^a	.849	.834	2760.059821	2.648

a. Predictors: (Constant), EPS (X3), DER (X1), ROE (X2)

b. Dependent Variable: HARGA SAHAM

Table 3.
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1244050892	3	414683630.7	54.435	.000 ^b
	Residual	220919976.2	29	7617930.214		
	Total	1464970868	32			

a. Dependent Variable: HARGA SAHAM

b. Predictors: (Constant), EPS (X3), DER (X1), ROE (X2)

Table 4.
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1848.743	663.617		2.786	.009		
	DER (X1)	-116.428	607.402	-.017	-.192	.849	.639	1.564
	ROE (X2)	20.376	1694.316	.001	.012	.990	.614	1.629
	EPS (X3)	8.281	.681	.920	12.162	.000	.909	1.101

a. Dependent Variable: HARGA SAHAM

The multicollinearity test in Table 3 shows that all independent variables (DER, ROE, and EPS) do not show multicollinearity with the indicated value of $VIF < 10$ and tolerance > 0.1 .

The Summary model in table 1 shows an R-value of 0.922, meaning that the research conducted on the dependent variable (Y) of stock prices has a very strong relationship with the independent variables Debt Equity Ratio (X1), Return On Equity (X2) and Earning Per Share (X3). Regression equation is known $\hat{Y} = 1848,74 - 116,43X_1 + 20,38X_2 + 8,29X_3$.

It is known that the analysis (termination coefficient) is 0.849, indicating that the dependent variable, namely stock prices, can be explained by DER, ROE, and EPS of 84.9%. The remaining 15.1% can be explained by variables other than DER, ROE, and EPS. For example, factors such as macroeconomic factors include inflation, interest rates, growth in Gross Domestic Product (GDP), and low currency exchange rates. R^2

Hypothesis Testing With F . Test

The F test is used to test the effect simultaneously or together with the independent variables, namely DER, ROE, and EPS on the dependent variable, namely Stock Price. The test results can be seen in table 2. Annova on the F test is 54,435 with a significant level of 0.000. The condition is that if $F \text{ count} > F \text{ table}$ and $\text{sig value} < 0.05$ there is a significant effect. The results for the F table are 3,427, where $54,435 > 3,427$ and $\text{sig value} (0.000) < 0.05$, then this annova hypothesis can be accepted that all independent variables are DER, ROE, and EPS simultaneously or together can explain the dependent variable, namely Stock Price.

Hypothesis Testing With t-Test

The t-test was used to determine whether the independent variables partially had a significant effect or not on the dependent variable. The degree of significance used was 0.05. If the significant value is less than the degree of confidence, then we accept the alternative, which states that an independent variable partially affects the dependent variable. The results of the t-test in this study can be seen in table 3.

a. DER Partial Test Results on Stock Prices

From table 3, the results of the regression analysis obtained t count of $-0.0192 < t \text{ table}$ 2.368 and a sig/significance value of $0.840 > 0.05$, which means H_0 is accepted and H_a is rejected. The Debt to Equity Ratio (DER) variable has no significant and negative effect on stock prices, meaning that it cannot be used in predicting stock prices in the future. In this case, the companies listed in JII have a fairly high level of debt, where it is hoped that by increasing investment they can obtain high profits from their fixed costs. registered with JII to avoid high risk.

b. Return On Equity Partial Test Results

Viewed from table 3, the results of the regression analysis obtained t count of $0.012 > t \text{ table}$ of 2.368 and a sig/significance value of $0.990 > 0.05$, meaning H_0 is rejected and H_a is accepted. Return On Equity (ROE) does not have a significant and positive effect on stock prices. This means that this ratio cannot be used to predict future stock prices. The increase in profit for companies listed on JII, the increase in profit is still far from 50%, where the company does not optimize the use of capital. Optimizing the use of capital is very important to be reported to investors. Because investors do not only invest capital alone but also trust.

c. Earning Per Share Partial Test Results

From table3, the results of the regression analysis obtained that t count was $12,162 > t \text{ table}$ 2,368 and the value of sig/significance for the Earning Per Share (EPS) variable was $0.000 < 0.05$, so H_0 was rejected and H_a was accepted. In conclusion, Earning Per Share (EPS) has

a significant effect on the company's stock price. Earning Per Share is a ratio that shows the income earned by each share and the company's earnings prospects in the future. One of the reasons investors buy shares is to get dividends, if the value of earnings per share is small, the company is less likely to distribute dividends. So it can be said that investors will be more interested in stocks that have high Earning Per Share because it is one indicator of the success of a company. Low Earning Per Share tends to make prices go down.

CONCLUSION

Based on the results of the study, it was concluded that:

simultaneously or together DER, ROE, and EPS are able to explain the dependent variable, namely the Stock Price. The results of the partial analysis of the Debt to Equity Ratio (DER) have a negative, insignificant, or no significant effect on stock prices. The results of the partial analysis of Return On Equity (ROE) have no significant positive effect on stock prices. The results of the partial analysis of Earnings Per Share (EPS) have a positive, insignificant, or no significant effect on stock prices. Investors and potential investors should not only use ratio analysis such as the Debt to Equity, Return On Equity, and Earning Per Share which can be used as the basis for making decisions to predict stock prices.

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