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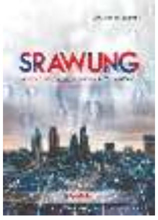


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# The Impact of Return on Profit, Company Value and Company Size on Stock Prices in Manufacturing Companies Listed on IDX

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## ABSTRACT

*This study aims to examine and analyze the impact of earnings returns, firm value, and firm size on stock prices in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange according to the publication of the Indonesia Stock Exchange (IDX). The companies that are the sample of this research are manufacturing companies in the various industrial sectors that have been listed on the IDX since the data for the period in this study is 2018-2020, 54 manufacturing companies in the various industries were selected. The results showed that the return on earnings had a positive effect on stock prices, while firm value and firm size had no effect on stock prices in manufacturing companies in the various industrial sectors.*

***Keywords:*** *Return of Profit, Company Value, Company Size, Stock Price*

## INTRODUCTION

The stock prices are be in demand because of fundamental analysis with the the issuer measurement of the company. From the issuer companies, investors will see whether their profitability, sales, growth, and cash flows. From the fundamental analysis, it can determine the fair value of the company. For investors who are optimistic about the company, it is seen from under value since the company is consistent with good fundamental analysis. There are also investors who are pessimistic in assessing companies with overvalued stock prices, this is called the realm of fundamental analysis to find out how good the company is at buying or selling company shares. From this, there is a stock price movement when the seller is dominant, the price will moves down and when the buyer is dominant, the price is moves up. The fundamental perceptions cause stock movements, while the three main movements of stocks are uptrend, balanced, and downtrend.

Every company will always try to run their business well. The good conditions can be achieved when the company is able in resulting profits and implementing the business activities according to the company's vision, mission and goals. The main purpose of a company that has been listed on the IDX is to generate profits in order to increase the prosperity of the owners or shareholders through the value increasing of the company(Chasanah, 2018). One of the main indicators that reflects the performance of the capital market in Indonesia when it is experiencing bullish or bearish is the Composite Stock Price Index (JCI). This is because the Composite Stock Price Index (JCI) records the stock price movements of all securities listed on the Indonesia Stock Exchange, then the movement of Composite Stock Price Index (JCI) is an important concern for all investors on the Indonesia Stock Exchange, because the movement of the Composite Stock Price Index (CSPI) will affect the attitude of investors whether to buy, hold or sell their shares. In the capital market, an index has several functions as the indicator of market trends, indicators of profit levels and benchmarks of the portfolio performance or mutual fund. This capital market indicator can fluctuate in line with changes in existing macroeconomic assumptions. Along with capital market indicators, the macroeconomic indicators and indicators from foreign exchanges also fluctuated. Thus, an investor must be able to understand the behavioral patterns of stock price movements and the value of the JCI technically on internal and external factors in a country that can affect the capital market before they do the investing (Setia, T., & Wijaya, 2015).

Before making an investment, investors need to consider the stock price. Based on a study conducted by (Sihaloho, J., & Rochyadi, 2021) stated that stock price is the price in the real market, and easiest to determine since it is the stock price in the ongoing market or when the market is closed, the market price is the closed price. The companies or industries preferred by investors are companies that have stability stock price and movement patterns that tend to rise from time to time. In reality, stock prices in the market tend to fluctuate. The fluctuating stock price conditions will make it difficult for investors to determine when is the right time to buy or sell the shares.

(Sitanggang, 2014) in his research states that in the process of offering or issuing initial public shares, one of the main things that need to be considered is the determination of share prices. This concerns are the amount of funds that will be received by the company and also affect investors' interest in buying company shares, the initial stock price research should be conducted to find the most reasonable price for the investors. The assessment will be implemented in determining the initial share price of a company. In this research, the assessment of initial stock price will be calculted on the research object.

In a study conducted by (Dewi, 2020) showed an initial offer of early returns has no effect on the stock offering on the initial return which is evident to investors, the stock offering cannot be achieved through benchmarking to examine the company's quality. The results show that the firm's influence on initial returns. For investors in assessing the quality of the company, it can be seen from the company that has been operating for a long time and able to survive. The results show that the size of the company reflects the initial return and the firm size can affect the size of the initial return.

Researchers also find the evidence of consistently high returns for firms of all sizes with negative earnings. In this research (Alsufy, F., Afifa, M. A., & Soda, 2020) describes the current study aims to investigate the effect of earnings quality on the market value of stock prices and the role of liquidity as a mediating effect in the alliance between earnings quality and market value stock prices. In conclusion, the market value of the share price of Jordanian industrial public shareholder companies is influenced by the earnings quality. This means that high earnings quality positively affects the market value of the stock price. With the role of liquidity as a mediator factor in the study framework, liquidity and earnings quality positively affect the market value of stock prices, but they are not full mediators. This is because there is no relation between earnings quality and liquidity in this study, while there is a positive relationship between earnings quality and liquidity (Sidiq W, A., & Niati, 2020)

## LITERATURE REVIEW

### Signalling Theory

Signaling theory was first stated by Spence in his research entitled Job Market Signaling. This theory involves two parties, internal parties called management as parties who provide signals to investors who receive the signal by giving a signal, the management tries to provide relevant information that can be utilized by investors, and investors will adjust their decisions according to their signal understanding. In the research of Kübler et with the title Job-market signaling and screening: An experimental comparison, they analyzed Spence's educational game in the experimental market. Researhers then compare the signal and variance filtering, and analyze the effect of number increasing of competing entrepreneurs from two to three. The signaling theory explains how a company should provide useful signals for financial report users. The signal given by the company is in the form of information such as the company's annual financial report regarding management's efforts in managing the company to obtain maximum possible profit. Signal 10 can be in the form of information stating that company A is better than company B or other companies. Signals can also be in the form of reliable information regarding the company's goals or prospects in the future. The information is needed by financial report user, especially investors to analyze the risk of each company. The good companies will publish their financial report openly and transparent, also publish the voluntary disclosures.

Signaling theory explains that an entity gives signals to external parties, especially users of financial documents. This signal contains information about everything implemented by the manager to realize the owner's agenda. The signal can be in the form of promotions or other information that describes the entity's advantages over other entities. Signaling theory explains that signaling given by managers aims to mitigate the information asymmetry in two extreme conditions, small differences that are not significant and which are significant for management or shareholders. The information provided by managers through financial record contains accounting policies that produce quality corporate profits. This accounting principle can prevent the occurrence of manipulating earnings and assist the financial report users with the presentation of earnings that are not overstated in (Alós-Ferrer, C., & Prat, 2012).

**Market Effeciency**

The efficient market is a market condition in which the stock market price are fully reflects all available information. In efficient market, the market prices will respond instantly to new information that is reflected in stock prices changes. The key to measuring an informationally efficient market is to investigate the correlation between stock prices and accounting information. In this research, the researcher uses the impact of return on earnings, firm value and firm size to affect stock prices. The researcher assumes that the efficiency of the securities market in the Indonesian capital market is semi-strong.

All market efficiency tests within the proposed theoretical framework, when the theory is tautological, the test must not be able to disapprove the hypothesis stated that the market is efficient. The test is inadequate in this regard. Market efficiency requires in setting the price of a security at any time t - 1, the market correctly uses all the available information. For simplicity, an assume that the price of a security at t - 1 depends only on the distribution characteristics along with the set price at t.

**Stock Price Index**

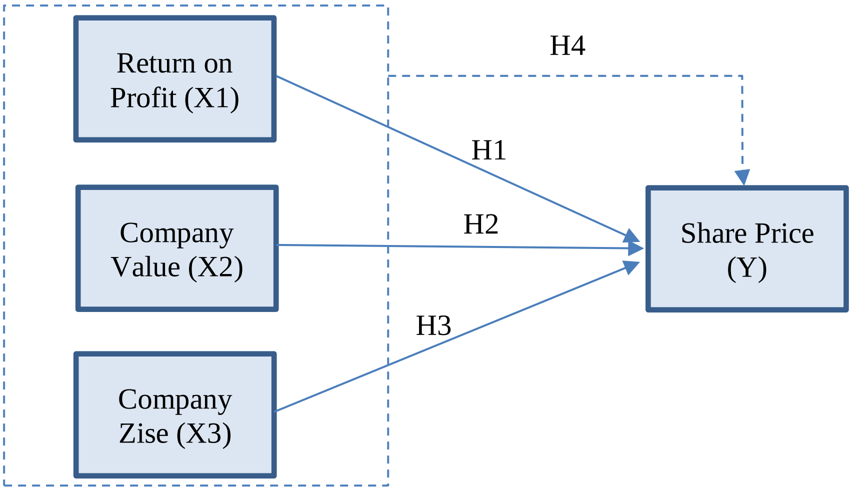
The stock price index is an indicator that shows the movement of stock prices. The index functions as an indicator of market trends, meaning that the movement of the index describes market conditions at a time, whether the market is active or sluggish (Setia, T., & Wijaya, 2015). With the index, people can find out the current trend of stock price movements, whether they are rising, stable or falling. The movement of the index is an important indicator for investors to determine whether they will sell, hold or buy one or more stocks. Since the stock prices move in seconds and minutes, the index value also moves up and down in a fast matter of time.

The stock price index is a description of stock prices at a certain time or periodization as well. The stock price index is a record of changes and movements in stock prices since they were first circulated until a certain time, and the stock price index presentation is based on an agreed-upon basic number unit. The movement of the index value will indicate changes in the market situation that occur. The market is demand or there are active transactions, as indicated by an increasing stock price index. This condition usually indicates the desired state. The stable conditions are indicated by a fixed stock price index, while a sluggish state is indicated by a declining stock price index. Thus, the JCI can be used as a barometer of a country's economic health and as a basis for conducting statistical analysis on current market conditions.

According to (Brigham, 2019) in the Financial Management book "A market price, which is the actual market price based on perceived but possibly incorrect information as seen by the marginal investor." The stock price is the amount paid available by an investor for a stock, as well as the best indicator to assess the company performance.

Currently PT. Indonesia Stock Exchange has several categories of stock price indexes which are continuously disseminated through print and electronic media as a guide for investors to invest in the capital market (www.idx.com).

**Research Model and Hyphotesis**




Return on profit measured in this research is return on investment (ROI) or the investment’s return rate and the effectiveness of the company's operations, measuring the company's ability with all funds invested in assets used for operations to obtain the profits. Return on investment provides an indication of how efficient the use of assets is and the fluctuation of sales and costs. The higher this ratio, the better of company condition (Machmuddah et al., 2020).

$$\text{ROI} = \frac{Net\ Profit}{Total\ Asset} \times 100\%$$

H1: The Impact of Return on Profit has a Significant Influence on Stock Prices in Manufacturing Companies.

The company valuation states the market value of outstanding debt securities and company equity. A high company proprietorship is the desire of the company owners since a high value indicates the high prosperity of shareholders. The wealth of shareholders and companies is presented by the market price of shares which is a reflection of investment decisions, funding and asset management (Chasanah, 2018).

$$\textit{Price to Book Value}\ (\text{PBV}) = \frac{Nilai\ Pasar\ Saham\ Biasa + Nilai\ Buku\ Hutang}{Total\ Aset}$$

H2: Firm Value Significantly Affects the Stock Prices in Manufacturing Companies.

Company size is the scale or variable that describes the company capacity based on several conditions, such as total assets, log size, market value, shares, total sales, total income, total funds and others. The companies grouped based on the operation scale are generally divided into three categories, large companies, medium companies and small companies. According to (Sihaloho & Rochyadi, 2021), company size is the size of the company that can be seen from the total equity value, sales value or asset value.

Company Size = Total Asset,

Stock Price = Closing Price

H3: Company Size Has a Significant Effect on Stock Prices in Manufacturing Companies.

H4: Return on Profit, Firm Value, and Company Size Have Significant Influence on Stock Prices in Manufacturing Companies.

## RESEARCH METHODOLOGY

The type of research conducted in this study is causal associative. Causal associative research is a study that aims to analyze the causal relationship between the independent variable (variable that affects) and the dependent variable (variable that is influenced).

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange according to the publication of Indonesia Stock Exchange (IDX). The companies that become sample in this study are manufacturing companies in various industrial sectors that have been listed on the

IDX since the period data in this study is 2018-2020, the 39 observations were selected in manufacturing companies in various industrial sectors.

The sampling technique in this research is using purposive sampling method that is in accordance with certain criteria as research support. The sample criteria in this study are: 1) Companies report the annual financial statements for the 2018-2020 period. 2) The company uses rupiah currency (Rp). 3) The company earns consecutive profits in 2018-2020. 4) Have complete data used in this study. The data used in this research is quantitative data, while the source of data in this study is secondary data. This study uses secondary data in the form of financial statements obtained from the official data of the Indonesia Stock Exchange accessed on the websites www.idx.co.id and www.sahamok.com.

**Multiple Regression Analysis**

Multiple Linear Regression is an equation that describes the relationship between two or more independent variables with one dependent variable. Multiple Linear Regression is applied in this study to determine whether there is an effect on profit returns, firm value and firm size. Also, to find out its effect on stock prices of various industrial sector manufacturing companies listed on the IDX. The results of data processing through the SPSS program. The multiple regression used in this study are:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

$Y$ = Stock Price
$\alpha$ = Constant
$\beta_1\ \beta_2\ \beta_3$ = Coefficient
$X_1$ = Return on Profit
$X_2$ = Firm Value
$X_3$ = Company Size
$e$ = Error

## RESULT AND DISCUSSION

### Result

This study obtained the data from various industrial sector manufacturing companies listed on the Indonesian stock exchange in the 2018-2020 period. The Indonesia Stock Exchange (IDX) classifies manufacturing companies in various industrial sectors.

The data collection in this study used a purposive sampling technique based on certain criteria. The following are the sampling criteria and the results of the research sample selection in table 1.

Table 1. Sampling Criteria

| No | Description | Total |
|---|---|---|
| 1 | The company reports its annual financial statements for the 2018-2020 period | 40 |
| 2 | The company does not report its 2018-2020 annual financial statements | -5 |
| 3 | The company uses the rupiah currency (Rp). | -8 |
| 4 | Have incomplete data used in this study | -9 |
| 5 | Outlier Data | -5 |
| Number of Selected Samples | | 13 |
| Total Sample 13 X 3 Years | | 39 |

The list of companies as the research sample is presented in table 2 as follows:

Table 2. Research Sample

| No | Code | Company Name |
|---|---|---|
| 1 | AMIN | Ateliers Mecaniques D'Indonesie Tbk |
| 2 | MYTX | Asia Pacific Investama Tbk |
| 3 | ASII | Astra International Tbk |
| 4 | AUTO | Astra Otoparts Tbk |
| 5 | GJTL | Gajah Tunggal Tbk |
| 6 | BOLT | Garuda Metalindo Tbk |
| 7 | IMAS | Indomobil Sukses International Tbk |
| 8 | INDS | Indospring Tbk |
| 9 | JECC | Jembo Cable Company Tbk |
| 10 | KBLM | Kabelindo Murni Tbk |
| 11 | KBLI | KMI Wire and Cable Tbk |
| 12 | LPIN | Multi Prima Sejahtera Tbk |
| 13 | BIMA | Primarindo Asia Infrastructure Tbk |

## Multiple Linear Regression Analysis

The result of multiple linear regression is an equation that describes the relationship between two or more independent variables with one dependent variable. The results of the multiple regression used in this study described in table 3 below:

Table 3. Multiple Linear Regression Analysis Results

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -809.396 | 3147.68 | | -0.257 | 0.799 |
| | Return on Profit | 52.454 | 17.789 | 0.595 | 2.949 | 0.006 |
| | Firm Value | 1069.34 | 4147.77 | 0.038 | 0.258 | 0.798 |
| | Company Size | 78.824 | 114.744 | 0.139 | 0.687 | 0.497 |

a. Dependent Variable: Stock Price

$$EVA=-809.396+52.454\ PL+1069.341\ NP-78.824\ UP\ +e$$

Hypothesis 1 Based on table 3 shows that the regression coefficient value of the Return on Profit variable is 52,454 has a positive value with a significance value of 0.006 < (0.05). It can be said that the return on Profit variable has a positive effect on stock prices. Then, the first hypothesis is accepted.

Hypothesis 2 Based on table 3 shows that the regression coefficient of the firm value variable is 1069,341 has a positive value with a significance value of 0.798 > (0.05), it eventuate that the firm value variable has no significant positive effect on stock prices. Then, the second hypothesis is rejected.

Hypothesis 3 Based on table 3 shows that the regression coefficient of the firm size variable is 78,824 positive with a significance value of 0.497 > (0.05). it conclude that the firm size variable has no significant effect on stock prices. Thus, the third hypothesis is rejected.

Hypothesis 4 is a test to find out the independent variable has an effect on the dependent variable simultaneously, to calculate the value of F table = F (k: n-k) = F (3: 36) = 2.87. Based on the results of the F test as shown in table 4, it is known that the calculated F value is 4.143 > from the F table value 2.87 and the significant is 0.013 < (0.05). It can be concluded that the independent variables of return on profit, firm value and firm size simultaneously have an effect significant to the dependent variable of stock prices. Thus, the fourth hypothesis is accepted.

Tabel 4. F-test Result

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 83828165.28 | 3 | 27942721.8 | 4.143 | .013[b] |
| | Residual | 236037549 | 35 | 6743929.97 | | |
| | Total | 319865714.3 | 38 | | | |

a. Dependent Variable: Stock Price

b. Predictors: (Constant), Company Size, Firm Value, Return on Profit

**Discussion**

Based on table 3, it is known that the regression coefficient value of the Return on Profit variable is 52,454 has a positive value with a significance value of 0.006 < (0.05). It can be said that the return on profit variable has a positive effect on stock prices. Thus, the first hypothesis is accepted. The results of this study indicate that the return on profit will have an effect on increasing the company's stock price. This result is supported by (Kitsamphanwong, M., Pholkaew, C., & Ngudgratoke, 2021) research which stated the variable value of the stock bidding. The stock tendering price is also one of the factors that influence the value of the stock bidding on the initial return, high and low price per share offered by the company is expected can determine the stock price in the future. When there is an increase in profit returns in the company, it will affect the company's stock price directly, then the company's profits in selling assets are able to increase company profits. In addition, a good return on profits can attract the new investors to invest in the company.

Based on the results of the study in table 3, it is known that the regression coefficient of the firm value is 1069.341 positive value with a significance value of 0.798 > (0.05). it conclude that the firm value has no significant positive effect on stock prices. Thus, the second hypothesis is rejected. The results of this study indicate that firm value has no effect on share price bidding in various industrial sub-sector manufacturing companies. The company value states the market value of outstanding debt securities and company equity. A high company value is the desire of company owners since it shows the high prosperity of shareholders. However, in this study, there was no effect of firm value on stock prices, this is because investors' assessments in purchasing shares are very little which determined by firm value.

Based on the research results shown in table 3, it is known that the regression coefficient value of the company size variable is 78,824 positive with a significance value of 0.497 > (0.05). It means the firm size variable has no significant effect on stock prices. Thus, the third hypothesis is rejected. The results of this study indicate that the size of the company has no effect on share price tendering in manufacturing companies in various industrial sub-sectors. The company size can be defined as an effort to company assets based on property, total sales, average total sales and average total assets. Generally, Indonesian researchers use total assets or total sales as a proxy for company size. The company size will be very important for investors and creditors since it will be associated with the risk of the investment made (Dwinda, E. N., 2021).

The independent variables of return on profit, firm value and firm size simultaneously have a significant effect on the dependent variable of stock prices. Thus, the fourth hypothesis is accepted. This is in accordance with the function of the stock price index according to (Setia, T., & Wijaya, 2015), which is the main indicator that describes stock price movements. In the capital market, an index is expected to have five functions: a. As an indicator of market trends. b. As an indicator of the profit level. c. As a benchmark for portfolio performance. d. Facilitate the portfolio formation with a passive strategy. e. Facilitate the development of derivative products. The stock price index is a description of stock prices at a certain time or in a certain periodization as well. The stock price index is the changes record and movements in stock prices since they were first circulated until a certain time, and the stock price index presentation is based on an agreed-upon basic number unit. The movement of the index value will indicate changes in the market situation. There are active transactions in the market, as indicated by an increasing stock price index. This condition usually indicates the desired state. The stable conditions are indicated by a fixed stock price index, while a sluggish state is indicated by a declining stock price index. Thus, the JCI can be used as a barometer of a country's economic health and as a basis for conducting statistical analysis on current market conditions.

**CONCLUSION**

This study focuses on the discussion and application of a causal associative approach to find stock value trends in the Indonesian stock market. It was found that the return on earnings has a significant effect on stock prices partially, it means that the better the return on earnings (ROI) will have a positive impact on stock prices. The company value does not affect the stock price partially, so it means that the price to book value (PBV) does not have an impact on the stock price. The company size has no effect on stock prices partially, in this study the proxy used to measure firm size is total assets, it means that total assets in a company have no impact on the company's stock price. However, when the test conduct simultaneously among the return on earnings (ROI), firm value (PBV) and firm size (total assets) it will have a significant effect on stock prices (closing price), it can be concluded that stock price changes happens when the stock price level, profit returns, firm value, and firm size are in good circumtances.

The limitations in this study that can be stated by the authors include: the sample used in this study is relatively small and does not represent the research population where 13 manufacturing companies in various industrial sectors listed on the Indonesia Stock Exchange (IDX) were selected based on several criteria in this study observed in 3 periods from 2018-2020, then the total observations in this study were 39 observations. Furthermore, it is suggested for the next researcher who wants to research on the same topic to replace or add the independent variables. In addition to obtaining maximum results, the researcher must expand the observation sample for answering the research question.

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