Effect of Net Profit Margin and Return on Equity on the Stock Price

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ABSTRACT

This research aims to know and analyze the influence of Net Profit Margin on the Share Price, to know and to know and analyze the influence of Return On Equity on the Share Price and to know and analyze the influence of Net Profit Margin and Return On Equity on the share price of Coal Mining Companies listed on the Indonesia Stock Exchange. This research approach uses a quantitative approach. The object of this research is the Coal Mining company listed on the Indonesia Stock Exchange (IDX) D from 2016 to 2019 which generates profit everys. The population used is 22 Coal Mining companies registered with IDX, the method of determining the number of samples used in this study is purposive sampling and selected as a sample of 8 companies. The results of this study show that partially Net Profit Margin has a negative and insignificant effect on the Share Price, and Return On Equity partially affects the Share Price. Simultaneously Net Profit Margin, Return On Assets, and Return On Equity affect the Share Price.

Keywords : Net Profit Margin, Return On Equity, Stock Price.

INTRODUCTION

Stocks are one of the most commonly traded capital market instruments because stocks are able to provide attractive levels of profit. Shares are a letter of inclusion of capital ownership of a person in a limited liability company. Stock players or Investors need to have a certain amount of information relating to the dynamics of the share price in order to make decisions about which company's shares are eligible to be selected and purchased. The more efficient and effective the management of capital markets, the more potential issuers come to the capital market.

The share price is one of the factors that makes investors invest their funds in the capital market because it can reflect the rate of return on capital. Before making an investment, investors need to know and choose which stocks can provide the most optimal return with the invested funds. In order to obtain these profits the company must have the ability to manage its existing resources in order to gain investor confidence so that this will attract investors to invest.

According to Abdul Halim (2005) explained "Generally the market price is different from the book value of the stock. The less information can be obtained to calculate the share price, the further the difference. Too little information flows to the Stock Exchange, so its share price tends to be affected by the psychological distress of the buyer or seller (irrational actions). To prevent this, the company should always provide sufficient information to the Stock Exchange as long as it affects its share price".

According to Tjiptono and Hendy M. Fakhrudin (2012) explained "Stocks are known for their characteristic high yield, high risk high return. This means that stocks are securities that provide high profit opportunities but also high risk potential. Stocks allow investors to earn large returns or capital gains in a short period of time. However, as the stock price fluctuates, it can also make investors suffer major losses in a short period of time".

As for the factors that affect the share price. Mohammad Sampul (2006) stated: "That factors affect the share price namely interest rate, inflation rate, tax ation regulations, government policy, foreign exchange rates". Therefore to examine the influence of Net Profit Margin (NPM) and Return On Equity (ROE) on the Share Price, considering that the capital market is increasingly heading in an efficient direction so that all relevant information can be used as input to assess the share price.

LITERATURE REVIEW
Stock Price

Stocks are one of the most popular financial market instruments. Issuing shares is one of the company's options when deciding to fund the company. On the other hand, stocks are an investment insterumen that many investors choose because the stock is able to provide an attractive level of profit. While according to Hadi (2013) shares are securities that can be bought or sold by individuals or institutions in the market where the letter is traded.

According to Darmadji and Fakhruddin (2012) "Stock can be defined as a sign of inclusion or ownership of a person or entity in a limited company or company. The stock is in the form of a piece of paper explaining that the owner of the paper is the owner of the company that issued the letter. The portion of ownership is determined by how much inclusion is instilled in the company".

Net Profit Margin (NPM)

Profit is a reflection of the company's management performance for each period which will be utilized for capital addition in order to increase production capacity or for marketing expansion to various regions. Cashmere (2012) states that, "Net income is a profit that has been deducted from costs that are the expense of the company in a certain period, including taxes".

While Syamsuddin (2009) stated that, "Net Profit Margin is the ratio between net profit (net profit) that sales after deducted with expenses including tax compared to sales. According to Sudana (2011), the measurement of net profit margin is as follows:

$$Net\ Profit\ Margin = \frac{Net\ Profit\ After\ Taxes}{Sales} \ x\ \textbf{100\%}$$

Return On Equity (ROE)

Return On Equity (ROE) is a measure of the amount of profit a company has generated in the past year compared to its equity value. Unlike others, this unit of ROE is a percentage. This ROE ratio is also to determine the rate of return on equity.

Syamsuddin (2009) stated that: "Return On Equity (ROE) is a measurement of the income available to the owners of the company (both ordinary shareholders and preferred shareholders)

for the capital they invest in the company". According to Kasmir (2012) "Return On Equity (ROE) is the ratio to measure net profit after tax with its own capital. This ratio indicates the efficiency of capital use itself. The more Tiggi this ratio, the better. This means that the position of the owner of the company is stronger, and vice versa.

Brigham and Houston (2010) explains: " Ultimately, the most important accounting ratio or "bottom line" is the ratio of net income to common stock equity, as measured as the return on common equity-ROE" ratio. ROE can be formulated as follows:

$$Return\ On\ Equity = \frac{Earning\ After\ Interest\ and\ Tax}{Equity} \times 100\%$$

METHODS

This study uses a type of associative form of research that describes a state where it aims to know the influence of more than one variable. In this study, using secondary data derived from company data that will be sampled or in other words empirical research without having to conduct research directly to the company concerned. Quantitative approach is the type of approach chosen in this study, which is an approach based on testing theories compiled from various variables, measurements involving numbers, and analyzed using statistical procedures.

The data collection techniques in this study were carried out using documentation techniques. The data used in this study is quantitative data sourced from secondary data. The data source used is a secondary data source obtained by retrieving data published by the Indonesia Stock Exchange (IDX) from its official website, namely the financial statements of coal mining companies.

RESULT AND DISCUSSION
Result
Partial test (t test)

Statistical tests are performed to test whether a free variable (X) individually has a significant relationship or not to a bound variable (Y).

Table 1 Partial Hypothesis Test results (t)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	879.581	181.199		4.854	.000
	NPM	-.939	9.281	-.054	-.317	.754
	ROE	14.546	10.101	.277	1.440	.001

a. Dependent Variable : Harga Saham

Based on the results of the data analysis it appears that:

a. Constant Value of 879.581 means that if the NPM and ROE is worth 0 then Stock Price is worth 879.581.
b. The Beta Coefficient value for the NPM variable of -.939 means that each increase in the NPM variable then Stock Price will decrease by (0.939) assuming other variables are considered constant.
c. Beta Coefficient value for ROE variables of 14.546 means that any increase in ROE variables will increase Stock Price by 14.546 assuming other variables are considered constant.

The Effect of NPM on Stock Price.
Based on table 1 test results on the effect of NPM on Stock Price obtained significance value 0.754 (Sig.>0.05) then Ha rejected and H0 received. This means that NPM insignificantly affects Stock Price at Coal Mining Company List on Indonesian Stock Exchange.

The Effect of ROE on Stock Price.
Based on table 1 test results of the influence of ROE on Stock Price obtained a value of significance 0.001 (Sig.<0.05) then H0 was rejected and Ha accepted. This means that ROE has a positive and significant effect on Stock Price at Coal Mining Company List on Indonesian Stock Exchange.

Simultaneous Test (Test F)
Statistic F tests are performed to test whether a free variable (X) simultaneously has a significant relationship or not to a bound variable (Y).

Table 2 Simultaneous Hypothesis Test results (F)
ANOVAᵇ

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	477.654	2	159.282	16.625	. 000ᵃ
	Residual	268.166	28	9.027		
	Total	763.820	30			

a. Predictors: (Constant), NPM, ROE
b. Dependent Variable: Harga Saham

Based on a table of 2 simultaneous test results of NPM and ROE on Stock Price obtained a significance value of 0.000 (Sig.<0.05) then Ha was accepted and H0 was rejected. This means NPM and ROE simultaneously has positively and significant effect on Stock Price on Coal Mining Company List on Indonesian Stock Exchange.

Determination Coefficient
Statistical Test coefficient determination in this study the goal is to find out how far the model is in explaining variations in dependent variables. Statistical tests of the determination coefficient can be seen in the following table:

Table 3 Determination Coefficient

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.800[a]	.640	.602	978.51419

a. Predictors: (Constant), NPM, ROE
b. Dependent Variable: Harga Saham

Table 3 shows that the R Square value of 0.602 means that the percentage of the influence of independent variables (NPM and ROE) on dependent variables (Stock Price) is the value of the determination coefficient or 60.2%. While the remaining 38.8% were affected or described by other variables not included in this study model.

DISCUSSION

Based on the results of the analysis in the study conducted using the suitability of previous theories, opinions and research that have been put forward before, here is a discussion about some of the findings of the problems in the study:

The Effect of NPM on Stock Price.

The test results provide empirical evidence that NPM negatively and insignificantly affects Stock Price where it proves the hypothesis is rejected. The negative coefficient value indicates a negative relationship indicating that the higher the NPM, the lower the Stock Price the lower the NPM level, the higher the Stock Price. The findings suggest that Stock Price is not affected by NPM levels.

The Effect of ROE on Stock Price.

The test results provide empirical evidence that ROE has a positive and significant effect on Stock Price where it proves an accepted hypothesis. This means that the higher ROE level, the more Stock Price at Coal Mining Company List on Indonesia Stock Exchange increase. The positive coefficient value indicates a positive relationship indicating that the higher the ROE, the higher the Stock Price. The findings suggest that Stock Price is affected by ROE levels.

The Effect of NPM and ROE on Stock Price.

The test results provide empirical evidence that simultaneously NPM and ROE has a positive and significant effect on Stock Price where it proves an accepted hypothesis. This means that the higher NPM and ROE level, the more Stock Price at Coal Mining Company List on Indonesia Stock Exchange will increase. The positive coefficient value indicates a positive relationship indicating that the higher the NPM and ROE, the higher the Stock Price. The findings suggest that Stock Price is affected by NPM and ROE levels.

CONCLUSION

Based on the results of research and discussion stipulated earlier, conclusions can be drawn from research on the Effect of NPM and ROE on Stock Price at Coal Mining Company List on Indonesia Stock Exchange are as follows:

1. Partially NPM has negatively and insignificant effect to Stock Price at Coal Mining Company List on Indonesia Stock Exchange.
2. Partially the ROE has a positive and significant effect on Stock Price at Coal Mining Company List on Indonesia Stock Exchange.
3. Simultaneously that NPM and ROE have a positive and significant effect on Stock Price at Coal Mining Company List on Indonesia Stock Exchange.

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