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# The Effect of Financial Ratio on Stock Price in Agricultural Companies on The Indonesia Stock Exchange 2017-2020 Period

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## ABSTRACT

The goal to be achieved from this research is to determine the effect of the ratio of return on equity, earnings per share, and price earning ratio, on stock prices in the agricultural sector on the Indonesia Stock Exchange for the 2017-2020 period. This study used a population of 26 companies listed on the IDX for the 2017-2020 period, namely the agricultural sector. Multiple linear regression analysis method is used in this study. Based on the conclusion, there is a negative effect of the ratio of return on equity (X1) on stock prices (Y) in testing the first hypothesis. To test the next hypothesis, the conclusion shows that the ratio of earnings per share (X2) has a positive effect on stock prices (Y). This study also found that the price earning ratio (X3) is detrimental to the stock price (Y) in testing the third hypothesis.

**Keywords**: EPS (Earning Per Share); PER (Price Earning Ratio); ROE (Return on Equity); stock prices.

# INTRODUCTION

## Background

During the era of President Ir.H.Joko Widodo's leadership, the agricultural sector was one of the special attention sectors of the President of the Republic of Indonesia. President Joko Widodo opened the National Working Meeting on agricultural development, in this case the President said that in the conditions of the Covid-19 Pandemic the agricultural sector occupies an increasingly central position, therefore President Joko Widodo emphasized that in order to be able to fulfill food for the Indonesian population, the Indonesian President encouraged food estate must be resolved immediately. In this way, agriculture should be aimed at Indonesia by going through a large scale and using agricultural technology, so that the cost of production can compete with the same commodity prices as other countries. To realize the program that is being planned by the President of the Republic of Indonesia, a very large, long-term, investment cost is required.

According to Zuliarni (2012), stock price is one of the many indicators that can prove that a company is capable of good management. If the company often experiences an increase in share prices, then the company will be assessed as a company that is successful in managing its business by potential investors or investors.

Several financial ratios are needed by investors in order to be able to analyze the company's financial condition as stated in the financial statements, namely the liquidity ratio is a financial ratio that is often used by companies and investors. Then the profitability ratio is also one of the ratios most often used by investors, where This ratio helps investors determine the company's ability to earn profits in relation to sales, total assets, and own capital (Sartono, 2002).

From the description above, we can see that financial ratios are very important in assessing which stocks are productive and profitable stocks for investors, to invest part of their assets.

This study aims to find out that the ratios of ROE, EPS, and PER have a significant influence on the stock prices of agricultural sector companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

## Literature Review and Hypothesis Development

### Signaling Theory

Explain how a company shares signals that contain information to investors. Signal instructions will contain information on all actions that have been taken by management in realizing the wishes of the parties concerned such as company owners and investors. Positive signals can be in the form of information or other promotions which contain that the company will have a superior future compared to other companies (Saleh, 2012). Referring to Setyawan (2012), companies will give signals to investors for clear decision making

### Share

Keown, Martin, Petty, and Scott (2010:199) explained that the company's main goal is to maximize the value or price of the company's shares. The success or failure of a management decision can only be judged by the impact on the company's common stock price.

Dahlan (2005:507) defines shares as proof or a sign of ownership for capital in a limited liability company. Meanwhile, according to Hanafi and Abdul Halim (2009:15) shares are the last claim in order or rights.

### Stock price

According to Marzuki Usman (1990: 166), stock prices as an indicator of company performance are directly or indirectly influenced by various factors as follows:

1. Fundamental factors include company management capabilities, company prospects, marketing prospects, technological developments, profitability, benefits to the national economy, government policies, and investor rights.
2. Technical factors, including: exchange rate developments, market conditions, transaction volume and frequency, market forces.
3. Social, economic and political factors, including: inflation rate, monetary policy, seasonal factors, balance of payments and state budget, economic conditions and political conditions.

According to Anoraga (2015: 100) "share price is the money spent to obtain proof of participation or ownership of a company". According to Rusdin (2006; 68), the stock market price is the price of a stock in an ongoing market, if the stock exchange is closed then the stock market price is the closing price. The share price according to Ayu and Edy Handoyo (2009:28) is the price contained in the letter of ownership of the capital portion based on market valuation which is influenced by demand and supply on the stock exchange. Sartono (2008: 70) argues that the process of supply and demand that occurs will shape the price of shares in the capital market. When the number of requests a lot will cause an increase in stock prices. Meanwhile, if there are more offers, the stock price will fall. Jogiyanti (2008:167), explained that the value of the share price formed on the stock market really depended on the supply and demand that was taking place at that time. Brigham & Houston (2010: 7) states that the wealth owned by shareholders can be described by the stock price itself.

**Retutn On Equity**

According to Fakhruddin and Hadianto (2001: 65), Return On Equity (ROE) measures a company's ability to obtain profits available to company shareholders. If the ROE is low, the profits will be lower, so the stock price will fall. Vice versa, the higher the level of ROE, the higher the profit for shareholders and the company's shares will be in demand by investors so that the share price will rise. ROE can be explained as a representation of the company's capability to reap profits after tax by utilizing the capital owned by the company (Sudana, 2009:26). Utomo & Hartono (2014) explained, ROE is a micro factor (internal company) determined by Linga Sundagumilar Abqari & Ulil Hartono.

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

**Earning Per Share**

According to Tandelilin (2001: 241), information on earnings per share or better known as Earning Per Share (EPS) of a company shows the amount of company net profit that is ready to be distributed to all company shareholders. The amount of a company's EPS can be known from the company's financial statement information such as the company's balance sheet and income statement. According to Samsul (2006: 167), Buying shares means buying the company's prospects, which is reflected in earnings per share (Earning Per Share). EPS is the net profit available to be allocated to the ranks of shareholders divided by the number of shares of the company (Tandelilin, 2010: 373). Jiwandono (2014) explains that investors will pay attention to various aspects of investing in the stock exchange, one of which is earnings per share or called EPS.

$$\text{EPS} = \frac{\text{Net Income after Tax} - \text{Preferred Dividend}}{\text{Average Number of common share Outstanding}}$$

**Price Earning Ratio**

According to Hanafi & Halim (2009:85), the ratio that compares stock prices to earnings per share is called PER. (Inndiarti, 2016) explains that the greater the value of a company's PER, the more expensive its share price will be, and the better the value of the company. Companies that have high development have a high PER which provides information that the market wants profits to continue to grow in the future.

$$PriceEarningRatio = \frac{\text{Harga Per Lembar Saham}}{\text{Earning Per Share}}$$

From the literature review above which explains the effect of liquidity ratios and profitability ratios on stock prices,then it can be used as a framework and hypotheses for this study as follows:

H1: ROE has a significant effect on stock prices.
H2: EPS has a significant effect on stock prices.
H3: PER has a significant effect on stock prices.

## METHOD

A causal or causal type quantitative approach is used in this study. The population used is agricultural sector companies listed on the IDX for the 2017-2020 period using the company's annual financial report data, which means this research has a secondary data type. The data analysis phase of this study begins with the classical assumption test which consists of a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. After making sure that there are no deviations from the classical assumption model, the data analysis stage is continued towards multiple linear regression analysis. The last stage of data analysis is hypothesis testing which can be interpreted as the researcher's temporary answer to the research problem formulation which later forms the formulation expressed in a statement sentence. The hypothesis test in this study used the F statistic test, the T statistic test, and the coefficient of determination (R2). The sampling technique applied in this research is purposive sampling. Out of a total of 26 companies in the agricultural sector registered during the 2017-2020 period, an analysis was carried out to find companies that met the criteria of this study. Thus, it was found that there were 17 companies that listed and published financial reports during the 2017-2020 period. An analysis was carried out to find companies that met the criteria of this study. Thus, it was found that there were 17 companies that listed and published financial reports during the 2017-2020 period. An analysis was carried out to find companies that met the criteria of this study. Thus, it was found that there were 17 companies that listed and published financial reports during the 2017-2020 period.

## RESULT AND DISCUSSION

Hypothesis Test Results The coefficient value of -4.735 ($0 < 0.05$) is shown when the hypothesis test is carried out on ROE on stock prices. Referring to this value, ROE has a negative and significant effect on stock prices so that a decision can be made that H1 is accepted. Hypothesis testing was also carried out on EPS on stock prices which showed a coefficient of 25,720 ($0 < 0.05$). Based on these results, EPS has a positive and significant effect on stock prices so that it can be decided that H2 is accepted. To test the hypothesis on PER on stock prices, a coefficient value of -2.855 ($0.012 < 0.05$) is produced. So it can be concluded that PER has a negative and significant effect when viewed at that value. That is, H3 is accepted. The calculated F obtained from the results of this study is 218,625 with a significance value of 0,000. So that all the independent variables in this study, namely ROE, EPS, and PER, simultaneously have a positive influence on the dependent variable, namely stock prices.

## DISCUSSION

### The Effect of ROE on Stock Prices

Based on the research results, ROE has a negative influence on stock prices. This is based on the ROE value of the sample companies which are not that large, in fact, many companies have negative ROE values which indicate that these companies are currently unable to generate profits because this period was indeed a difficult period for the agricultural sector. Thus, this study accepts H1, which means that agricultural sector companies on the IDX with low ROE make their stock prices increase. Therefore, investors can use ROE as a reference in making investment decisions. The effect of the ROE variable on stock prices can be linked to signaling theory. The signal is a good signal or a bad signal. A good signal can be reflected in ROE which continues to decline so that stock prices can increase, and vice versa, a bad signal can be reflected in ROE which continues to increase so that stock prices can continue to decline. The results of this study support the signaling theory, because a low or high ROE ratio will send information in the form of positive or negative signals issued by the company, this signal will influence external parties in making decisions if they want to invest in the company.

### The Effect of EPS on Stock Prices

The hypothesis testing carried out in this study shows that EPS gives a positive effect on stock prices, which means that H2 is accepted. This study supports the research of Jiwandono (2014) which argues that if the EPS ratio is higher, the stock price will increase, the high EPS ratio will also increase the stock price. This means that agricultural sector companies listed on the IDX in 2017-2020 have sufficient profits available for shareholders. This condition is indicated by the acquisition of an average EPS ratio of agricultural sector companies on the IDX in the 2017-2020 range of 78.84. Meanwhile, the research by Ramfineli & Ibrahim (2016) has results that are not the same as this study, namely EPS does not have a significant effect on stock prices. Likewise with ROE, Signaling theory can be used to determine the relationship between EPS and changes in stock prices, because the EPS figures contained in the company's financial statements can provide an informational picture for investors to find out the prospects for the company's earnings in the future. The higher the EPS value contained in the company's financial statements, it will show a positive signal for investors.

### The Effect of PER on Stock Prices

This study illustrates that there is a negative relationship between PER and stock prices, so the third hypothesis is accepted. This indicates that an increase in the PER of an agricultural sector company on the IDX for the 2017-2022 period can cause a decrease in the company's share price. The results of research from Hidayat and Topowijono (2018) are in line with this study which found PER results had a negative effect on stock prices because these rights were based on the average company from the research period that the PER value was quite large and even increased from year to year. Meanwhile, the negative effects found in this study were obtained from several companies that had relatively large negative PER values. Therefore, companies with good growth and profits may not necessarily achieve an increase in stock prices.

## IMPLICATIONS

Based on the above conclusions, the implications of this research can be stated as follows:

**Agriculture industry**

EPS (Earning Per Share),PER (Price Earning Ratio), ROE (Return on Equity), has an influence on the company's stock price. b Share prices also reflect the value of a company. If the company achieves good performance, the company's shares will be in great demand by investors. The good achievements achieved by the company can be seen in the financial statements. This is where investors analyze these companies with financial ratios.

## CONCLUSION

Based on the research results, it can be concluded that ROE has a negative effect on stock prices. Thus, this study accepts H1, which means that agricultural sector companies on the IDX with low ROE make their stock prices increase. The hypothesis testing tested in this study shows that the EPS results have a positive effect on stock prices, which means that H2 is accepted. This study illustrates that there is a negative relationship between PER and stock prices, so the third hypothesis is accepted. Through the F test, it can be seen in this study that ROE, EPS, and PER simultaneously have an influence on stock prices.

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