

ANALYSIS OF RETURN ON ASSETS AND EARNINGS PER SHARE ON THE STOCK MARKET IN THE BANKING COMPANIES IN BURSA EFEK INDONESIA (INDONESIA SECURITIES EXCHANGE)

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ABSTRACT

Investors need accurate information to make an investment in the capital market, so that investors do not get stuck in adverse conditions. Investment in the stock exchange is a type of investment with a relatively high risk, despite relatively promising big profits. This study aimed to examine the effect of Return on Assets ratio (ROA) and Earning Per Share (EPS) of stock price at the banks.

This research is an empirical study, in which the data used in this study are secondary data. The study population was all banks listed on the Stock Exchange in the period 2006 to 2010, which amounted to 31 banks. The samples used in this study were 16 banks with sampling techniques using purposive sampling. Classical assumption in the study included classic assumption. Data had been analyzed using multiple linear regression analysis, the F test, t test, and the coefficient of determination test. Analysis of data by using multiple linear regression method.

Analysis Results of ROA on the banks showed that negative and not significant. Results of the analysis showed that the EPS on banks significant positive effect. Results of multiple linear regression analysis obtained ROA variable not significantly affect stock price. EPS variables significantly influence stock price. Adjusted R square value of 0.558 means Return On Asset (ROA), and the Earning Per Share (EPS) give a contribution of 55.8%, the stock price, while the remaining 44.2% can be explained by other variables outside the model.

Keywords: *Stock Price, Return on Assets, Earning Per Share.*

1. Introduction

Banking companies are extremely required in modern economic climate as mediator between the society with excessive funding and the society who need financial help. Data obtained from Indonesia *Investor Daily* on December 2010 had revealed that stock prices of PT Bank Rakyat Indonesia Tbk (BBRI) had decreased by 5,7%, PT Bank Mandiri Tbk (BMRI) decreased by 4,4%, PT Bank BNI Tbk (BBNI) decreased by 6%, and PT Bank BCA Tbk (BBCA) decreased by 2,3%. There are two factors that happen to be the reasons of these lower stock prices. First, portfolio switching has occurred to the companies with commodity base of coconut palm oil (CPO) and coal because these companies assessed to be potential

along with increase in world's commodity price. Second, bank's stock price has been adjudicated too expensive.

Statement given by Bloomberg showed that national banks' average *Price to Book Value* (PBV) is 3,5 times, while regional banks' is between 1,28 times until 2,8 times. Meanwhile, if being assessed from Price Earning Ratio (PER), national banks classified as upper class are in the level of 15-26 times, while regional banks about 11-23 times. It means, if being judged from PBV's perspective, national banks' stock prices indeed give expression to be quite high, so does from PER's.

Even after their stock prices went on lower rate, national banks still possessed ability to produce fantastic profits during 2010. By 2010 third quarter, BRI produced Rp 6,66 trillions net profit, Mandiri Rp 6,39 trillions, BCA Rp 6,11 trillions, BNI Rp 2,95 trillions, and Bank Niaga Rp 1,79 trillions. National banks' average net profits had grown more than 40% and had been predicted to be continued until next year. If calculated from range January-December 2010, those stocks still score high returns. BBRI for example, recorded return by 41,8%, BMRI by 38,3%, BBNI by 102,0%, BNGA by 192,3%, and BBKA by 32%.

Research about financial ratio's benefits had been done previously and had given different conclusions, for example research by **Hartono dan Parulian (2009)** showed both ROA and NPM ratio give no effect towards stock price's movement. Research by **Handoko (2008)** showed EPS has significant influence towards stock price, while other variable doesn't influenced. Research done by **Widi (2010)** disclosed ROA ratio's significant yet negative effect, while EPS ratio giving significant and positive effect.

The phenomena above has given conclusion that the one who has huge influence to attracts investors is the company itself, which should possess ability to improve and repair its performance so investors interested to invest through capital market. Assessment towards company's ability to produces profit is important to investors, because company's profit rate could influences its issued stock price. Company's high profit rate shall increase its ROA and EPS so the stock price would increase as well.

This research performed with the aim of examining *Return On Assets* (ROA) and *Earning Per Share* (EPS) effects toward banking companies which have their names listed at Indonesia's Stock Exchange.

2. Return On Assets (ROA)

ROA defined as company's financial ratio which related to company's ability to gain profit (profitability) at certain rate of revenue, asset, and capital (**Hanafi dan Abdul, 2007**). Greater ROA's bank would cause greater and higher bank's position from asset purpose's perspective (**Dendawijaya, 2008**).

Formula to calculate ROA is shown below:

$$\text{Return On Assets} = \frac{\text{net profit}}{\text{total asset}} \times 100\%$$

Bank Indonesia demands minimum ROA is 1,22%.

3. Earning Per Share (EPS)

EPS is ratio of income after tax divided issued common stocks, so knowing EPS could get us information to estimate how much we are going to earn as capital investors. EPS reflect future income or *capital gain or loss*. (**Harahap, 2010**)

Formula used to calculate EPS:

$$\text{Earning Per Share} = \frac{\text{net profit} - \text{preferred stock dividend}}{\text{Issued Common stocks}}$$

4. Stock Price

Rusdin (2006) said, "There are two kinds of stock price, when opened for sale for the first time at IPO (*initial public offering*) and at secondary market (exchange floor)".

5. Theoretical Framework

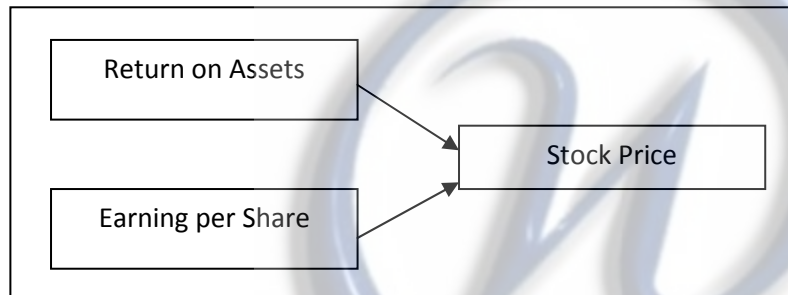


Figure 1: Theoretical framework of the study

6. Methodology

6.1 Research Object

Object of this research are *Return On Assets*, *Earning Per Share* and stock price of the banking companies which listed at Indonesia Stock Exchange, using secondary data acquired from financial statements from 2006 until 2010.

Sample and data collection method

Population observed in this research is banking companies which have their names on Indonesia Stock Exchange list amounted to 31 emittens, but only 16 would be observed as samples. Technique used for collecting samples is purposive sampling while research method is associative method (Sugiyono 2009). Hypothesis examined using multiple regression analysis.

7. Finding & Discussion

7.1 Descriptive statistics

Result from calculation of average *Return On Asset* on 2006-2010:

Table 2.1

Result from Calculation of Return On Asset for Each Bank on 2006-2010

Average ROA				
2006	2007	2008	2009	2010
1,52	1,57	-1,75	1,73	2,03

According to the table above, can be explained that average *Return On Asset* for banks recorded at Indonesia Stock Exchange list during 2006-2010 periods happen in fluctuate way.

Result from Calculation of Average *EPS* for Each Bank on 2006-2010

Tabel 2.2
Result from Calculation of Average *EPS* for Each Bank on 2006-2010

average <i>EPS</i>				
2006	2007	2008	2009	2010
84,25	172,08	91,02	119,24	179,41

From the table above, information gained that *earning per share* (*EPS*) value for banks listed at Indonesia Stock Exchange during 2006-2010 periods is fluctuating every year.

Result from Calculation of Average *Stock Price* for Each Bank on 2006-2010

Table 2.3
Result from Calculation of Average *Stock Price* for Each Bank on 2006-2010

Average <i>Stock Price</i>				
2006	2007	2008	2009	2010
1672,49	1843,31	1278,26	2082,68	2521,79

According to the table shown above, could be seen that changes in average stock price for banks listed at Indonesia Stock Exchange during 2006-2010 periods are fluctuated.

7.2 Analysis

By using SPSS, multiple linear regression analysis had resulted as shown below:

Table 4.6
Multiple Linear Regression Equation

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	799,343	197,539		4,047	,000
	ROA (x1)	-6,765	28,625	-,019	-,236	,814
	EPS (x2)	8,415	,900	,753	9,347	,000

a. Dependent Variable: Stock Price (Y)

So the multiple linear regression quotation could be made as:

$$\hat{Y} = 799,343 - 6,765X_1 + 8,415X_2$$

Result from Hypothesis Examination of ROA – Stock Price

T-calculated value for ROA variable is -0,236. With 5% α achieved t-table value as 1,991. Because t-calculated value < t-table value (-0,236 < 1,991) so H_0 accepted, means that partially ROA doesn't give significant influence toward stock price at Indonesia Stock Exchange.

Result from Hypothesis Examination of EPS – Stock Price

T-calculated value for EPS variable has resulted as 9,347. With 5% α achieved t-table value as 1,991. Because t-calculated value > t-table value (9,347 > 1,991) so H_0 refused, means that partially EPS gives significant influence toward stock price at Indonesia Stock Exchange.

Partial Influence Produced by Each Independent Variable

Coefficients^a

Model		Standardized Coefficients	Correlations
		Beta	Zero-order
1	ROA (x1)	-,019	,236
	EPS (x2)	,753	,747

a. Dependent Variable: Stock Price (Y)

According to the table above, calculation could be done to acquiring partial influence from each independent variable as explained below:

ROA Influence (X_1) = $-0,019 \times 0,236 = -0,004$ or $-0,45\%$

EPS Influence (X_2) = $0,753 \times 0,747 = 0,562$ or $56,2\%$

Based on the calculation above, could be understand that variable which gives biggest influence contribution is EPS variable (X_2) as $56,2\%$ while ROA variable (X_1) only has $-0,45\%$ influence contribution.

Research Finding

The study findings that the factors most influence on stock price is earning per share.

Theoretical Implication

Research finding has consistently affirmed that earnings per share is able to explain the stock price

Conclusion

Based on result from analysis and discussion which had performed, writers have taken conclusions:

1. Partially, *Return On Asset* (ROA) doesn't have significant influence toward stock price of banking companies which *go public* at Indonesia Stock Exchange, since influence contribution only given by $-0,45\%$.
2. Partially, *Earning Per Share* (EPS) gives significant influence toward stock price of banking companies which *go public* at Indonesia Stock Exchange, with influence contribution given by $56,2\%$.

Recomendation

Based on research finding, that the factor most influence on stock price is earning per share. So the investors suggested to be more careful in observing the development of the company's performance, in order to obtain the expected return

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