

## The Influence of Banking on Financial Performance to Stock Price in Indonesia

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### ABSTRACT

The objective of this research is to identify the influence of bank on financial performance which listed at Indonesia Stock Exchange to stock prices in 2009. The measure of performance is based on financial ratios CAMEL, which consist of CAR as represent of Capital, RORA as represent of asset quality, NPM as represent of Management, ROA and OEOI as represent of earnings and also LDR as represent of liquidity. Samples are taken from the banking companies which are listed in Indonesia Stock Exchange in 2007-2009, which was chosen based on purposive sampling method. The classical test result with test of One-Sample Kolmogorov-Smirnov shows normally datas, there is no multicollinearity, heteroskedasticity is not happen, and there is no autocorrelation, The present study found that CAR, RORA, NPM, and OEOI are significant effects on stock price, however ROA and LDR are insignificant. Simultaneously obtained by the independent variable CAR, RORA, NPM, ROA, OEOI, and LDR are significant on stock prices:

**Keywords:** CAMEL Analysis, Stock Prices

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### Introduction

Banking is one industry that participated in the capital market. Kashmir (2006) and Minister of Finance Decree (1990) states that, this industry do an important in the economy that is as financial institutions that channel funds from parties who have excess funds to companies that need funding in order to expand their business. Bank that always maintain their performance, expected the value of shares of the bank in the capital market and amount of third party funds collected will be increased. Increase in value of shares and amount of third party funding is one indicator of the increasing public or investors confidence to the bank. Performance is measured primarily in the banking industry using financial ratios that serves to illustrate the company's financial condition at a given period. Banking industry performance measurement based on Bank Indonesia (2004), which includes the variables CAR, RORA, NPM, ROA, OEOI and LDR who represent aspects of Capital, Asset, Management, Earning and Liquidity is better known as CAMEL.

Adnyani (2004) see the extent to which financial ratios CAMEL effect to stock prices. If shareholders have a high stock price from a banking institution which has the financial ratios of CAMEL is good, this means a significant market response, and another case if CAMEL financial ratios did not influence stock prices, means less to respond to market or capital market players have other, more relevant information for him to make investment decisions.

This research was formulated on how to influence and relationship banking performance is measured through a method which is indicated by CAMEL: Capital Adequacy Ratio (CAR), Return On Assets Risk (RORA), Net Profit Margin (NPM), Return On Assets (ROA), Operational Expense to Operating Income (OEOI) and the Loan to Deposit Ratio (LDR) to the stock price either partially or simultaneously.

### Literature And Empirical Evidence

Bank is a business entity which collects funds from the public in saving and channel them to the public as loans or other forms in order to improve social welfare (UU Perbankan No.10 of 1998). While

the performance by Kepmenkeu (2009) is achievement by the company within a certain period which reflects the performance of the company.

The financial performance is one of the fundamental aspects concerning the financial condition of companies that can be done on the basis of financial ratio analysis in a period. Bank performance based on Bank Indonesia (2004) regarding Performance Appraisal System for Commercial Banks, basically is to assess or measure the various aspects that influence the condition and development of the bank, such as: Capital (Capital), Productive Assets Quality (Assets), Management (Management), Profitability (Earnings), and Liquidity (Liquidity) commonly called CAMEL, where the fifth aspect of the use of financial ratios. Zainuddin and Jogiyanto (1999) and also Sudayasa (2003) states that certain financial ratios commonly used in fundamental analysis are Price Earning Ratio (PER), Return on Investment (ROI), Current Ratio (CR), Debt to Equity Ratio (DER), and Total Assets Turnover.

The purpose of this analysis by Santoso (2006) are (1) to ensure that bank management has been conducted in line with the principles of lending and regulations and (2) to set the basic direction of coaching and development, individually and banking industry thoroughly. Artana (2004) if the ratios improved, the performance of this institutions will increased also that expected to support their reputation on investor or customer, especially for banks listed in the stock market. Bank that had a better performance would give investors confidence to be able to obtain sufficient stock return.

Previous studies on the effect of financial performance to stock prices involved is supported in this study: Merkusiwati (2007) there is a significant influence CAMEL method on firm performance. Sholihah (2009) There is a significant influence between the banking financial performance based on the Camel analysis on stock price. Astuti (2002) showed that the LDR is significantly affect to stock market prices but for ROA is not significant. Sari (2004) showed that the variable CAR, ROA, OEOI and LDR significantly affected the stock price. Ardiani (2007) shows there is an effect of financial performance to changes in stock prices at the banking company in the BEI. Silalahi (1991) showed that the rate of return on assets, dividend pay out ratio, trading volume and deposit rates simultaneously affect to stock prices. Sulaiman (1995) showed that the return on assets, dividend pay out ratio, leverage, growth, liquidity, capital structure and deposit rates simultaneously affect the stock price, while in partial ROA, growth, liquidity, interest rates effect significant on stock prices. Leki (1997), shows that the return on Investment, dividend pay out ratio, interest rate, liquidity, stock sales volume, stock prices of the past, and capital gains simultaneously affect to stock prices, Sparta (2000), shows that ROA, DPR, and debt to equity (DE) simultaneously has a significant influence on price to book value (PBV), but in partially only ROA which has an influence on PBV. Suardana (2007) showed that there is a significant influence between the Camel ratio on stock return.

## Hypotheses

From the background of the problems and some previous studies, the authors formulated seven hypotheses to be tested, as follows:

- H<sub>1</sub> : CAR has an significant effect on Banking Stock Price
- H<sub>2</sub> : RORA has an significant effect on Banking Stock Price
- H<sub>3</sub> : NPM has an significant effect on Banking Stock Price
- H<sub>4</sub> : ROA has an significant effect on Banking Stock Price
- H<sub>5</sub> : OEOI has an significant effect on Banking Stock Price
- H<sub>6</sub> : LDR has an significant effect on Banking Stock Price
- H<sub>7</sub> : Banking Performance is measured with CAMEL method which is indicated by CAR, RORA, NPM, ROA, OEOI, and LDR simultaneously significant on Stock Price

## Research Design

### A. Population dan Sample

This research using *descriptive method*, which is the object of this research is a population of commercial banks in the banking sub-sector listed in Indonesia Stock Exchange. The sampling method use by *purposive sampling*, where the sample is selected by specifying certain criteria, such as:

1. Go Public company in the banking sub-sector which registered since 2007-2009 at IDX
2. The financial statements have been issued during the period of observation
3. The banks are not merged in the period of observation
4. Available closing price of shares

Based on these criterias to determine the sample, the commercial banks were selected to be observed are 22 banks.

### B. Operational Variables

Dependent and independent variables measured by CAMEL, reflected in the six financial ratios based on BI SE. 6/23DPNP, as follows:

1. **Capital** is indicated by *Capital Adequacy Ratio (CAR)*, the ability of banks offset a decline in assets due to losses on bank assets using its own capital. The greater this ratio, meaning the better the bank's capital adequacy ratio.

$$\text{CAR} = \frac{\text{Equity}}{\text{ATMR}} \times 100\%$$

2. **Asset** is indicated by *Return on Risked Assets (RORA)*, namely the ability to optimize assets in banks that contain risks to earn profits. The greater this ratio, it means that the better performance of the bank.

$$\text{RORA} = \frac{\text{Operating Income}}{\text{Total Loans} + \text{Investment}} \times 100\%$$

3. **Management** indicated by: *Net Profit Margin (NPM)*, which measures the rate of return on net profit to net sales. The greater this ratio, it means that the better performance of the bank.

$$\text{NPM} = \frac{\text{Net Income}}{\text{Operating Income}} \times 100\%$$

4. **Earnings** reflected in *Return on Assets (ROA)*, which measures the effectiveness of the company in utilizing all resources in order to measure the ability to generate profits. The higher this ratio, meaning the more effective use of assets to obtain income and the better performance of the bank.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Asset}} \times 100\%$$

5. **Earnings** reflected in *Operating Expense to Operating Income (OEI)*, which measures the level of efficiency and distribution of the bank in conducting its operations. The greater this ratio, it means that the better performance of the bank tersebut

$$\text{OEI} = \frac{\text{Operating Expense}}{\text{Operating Income}} \times 100\%$$

6. **Liquidity** proxies with *Loan to Deposit Ratio (LDR)*, ability to repay the bank withdrawals by customers with relying on loans as a source of liquidity

$$\text{LDR} = \frac{\text{Total Loans}}{\text{Total Deposits}} \times 100\%$$

#### Total Deposits

7. Share Price Corporate Banking, which is used is the corresponding closing share price on the day (Pt)

#### C. Types and Sources of Data

This research using secondary data obtained from various sources, such as Bank Indonesia (www.bi.go.id), the Indonesian Stock Exchange (www.idx.co.id), and The Capital Market and Financial Institutions Supervisory Board (www.bapepam.go.id).

#### D. Analysis Method

Test of hypothesis in this study using *Multiple Regression Analysis* with SPSS 13.0 for Windows. This analysis used to test the effect of stock price as dependent variable with variables banking performance (CAR, Rorà, NPM, ROA, OEOI, LDR) as independent variable.

Multiple regression equation can be written as follows:

$$Y = \alpha - \beta_1 x_1 - \beta_2 x_2 - \beta_3 x_3 - \beta_4 x_4 - \beta_5 x_5 - \beta_6 x_6$$

Dimana:

- Y : Stock Price (dependent variabel)
- $\alpha$  : Constanta
- $\beta_1 \dots \beta_6$  : Coefisien of Regression for each independent variabels
- X1 : CAR
- X2 : RORA
- X3 : NPM
- X4 : ROA
- X5 : OEOI
- X6 : LDR

#### Empirical Results

##### A. Classical Test Results

Classical test results stating with the calculation using One-Sample Kolmogorov-Smirnov Test that shows normally data, there was no multikoloniaritas where the value Variance inflating factor (VIF) below 10, heteroscedasticity does not happen, because there was a clear pattern at the points are spread above and below zero on the Y axis, there is no autocorrelation that shown in the Durbin-Watson value of 1.692.

##### B. Regression Test Results

Table 1 shows the results of multiple regression test, which partially can be seen that the variable CAR, RORA, NPM, and OEOI were significant effect on stock prices while ROA and LDR did not affect on stock prices. Simultaneously obtained value of  $F = 2.411$  with  $P\text{-value} 0.038$  was smaller than  $\alpha = 0.05$ . It means that the independent variables CAR, RORA, NPM, ROA, OEOI, and LDR simultaneously significant effect on stock prices.

Table 1 Counting result for CAMEL Ratio wih SPSS 13.00

Variabel	Koef Regresion	t-count	sig.
CAR	0,164	0,352	0,030
RORA	4,149	1,954	0,041
NPM	-0,118	-0,47	0,045
ROA	0,000	-1,141	0,272
OEOI	0,580	1,202	0,048
LDR	-0,057	-0,293	0,074

Constant	:	-0,274
Adjusted R <sup>2</sup>	:	0,287
F Count	:	2,411
F Significant	:	0,038
Alpha ( )	:	0,05

Fitness test models can be known through the value of *Adjusted R Square* of 0.287. It means that the independent variables in the model (CAR, RORA, NPM, ROA, OEOI, and LDR) is able to explain 28.7% change in the dependent variable (stock price), while the majority (71.3%) explained by other variables outside the model.

### C. Regression Model

$$Y = \alpha - \beta_1 X_1 - \beta_2 X_2 - \beta_3 X_3 - \beta_4 X_4 - \beta_5 X_5 - \beta_6 X_6 + e$$

$$Y = -0,274 + 0,071 X_1 + 0,411 X_2 - 0,103 X_3 - 0,335 X_4 + 0,366 X_5 - 0,067 X_6 + e$$

### Conclusion

The classical test result with test of One-Sample Kolmogorov-Smirnov shows normally datas, there is no multicoloniarity, heteroskedastisity is not happen, and there is no autocorelation. The present study found that CAR, RORA, NPM, and OEOI are significant effects on Stock Price, however ROA and LDR are insignificant. Simultaneously obtained by the independent variable CAR, RORA, NPM, ROA, OEOI, and LDR are significant on Stock Prices.

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