

## Stock Price with Profitability Effect (Case Study: Food and Beverage Sub-Sector Company on Indonesia Stock Exchange)



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**ABSTRACT:** Companies must adapt to changing fields and adopt appropriate strategies to maintain profitability, such as cost restructuring, diversification of their products or services, and investment in innovation and technology. Variable profitability is used as a measure of a company's performance against stock prices. This study aims to examine the effect of profitability ratio on stock price in food and beverage sub-sector companies listed on the IDX. There are four variables of the profitability ratio, namely ROA, ROE, EPS and NPM. Researchers chose food and beverage companies as the sample studied because this sub-sector company is a company that has a wide scope and is also stable in the face of economic changes. Researchers are interested in conducting research to find out whether there is an effect of profitability on stock prices in food and beverage companies on the Indonesia Stock Exchange. This type of research is quantitative research with regression method. The research was conducted on food and beverage sub-sector companies listed on the IDX from 2020 to 2022. In data analysis, hypothesis testing was carried out Multiple linear regression analysis. T-Stat is used to test the statistical significance of the regression coefficient, while P-value is used to test the overall significance. All independent variables have a significant T-Stat (more than 1.96) and a P-value lower than 0.05, except for the EPS variable which has a P-value of 0.088 (higher than 0.05). This shows that ROA, ROE, and NPM significantly affect the stock price, while EPS does not significantly affect the stock.

**KEYWORDS:** Stock Price, Profitabilitas, Return on Asset, Return on Equity, Earning pershare, Net Profit Margin, dan Finance

### INTRODUCTION

Global economic conditions are still in the recovery phase after experiencing significant impacts due to the COVID-19 pandemic (Utama & Mustika, 2022). Many countries are experiencing declining economic growth and rising unemployment (Corbet et al., 2022). This also has an impact on companies, where many of them have to face major challenges such as falling demand, hampered production, and increased operational costs (Herlin Tundjung, 2020). However, the existence of economic recovery policies from the government and adjustment measures taken by companies can help improve economic conditions and increase company profitability (Mulyadi et al., 2020). Companies must be able to adapt to market changes and take appropriate strategies to maintain profitability, such as cost restructuring, diversification of products or services, as well as investment in innovation and technology (Utama, A. N. B., & Suryani, A. I. (2023). A company's success rate and profitability will largely depend on the extent to which they can manage risk and take advantage of the opportunities that exist in these difficult economic conditions (Utama & Efrina, 2023). Profitability is the most important indicator to measure the performance of a company that focuses the company's ability to earn *income* in the company's operations by utilizing the assets owned (Yuniari & Badjra, 2019).

In this study, profitability variables are used as a measure of company performance. The main operational function of the company is to achieve maximum profitability. Profitability is important for companies because profitability is used to measure the effectiveness of the company in generating profits by utilizing its assets. Profitability is the ability to generate / obtain profits effectively and efficiently (Rahma, 2020). The profitability used is ROA, ROE, EPS and NPM because it can take into account the ability of company management to manage its assets to generate *income*. The greater the profitability of the company, the greater the level of profit achieved by the company and the better the company's position in terms of asset use (Xiao & Tao, 2021). This shows that the high profitability of the company will be able to increase the company's ability so that it will make the company also increase its stock price (Pratama & Idawati, 2019).

For investors, information about the level of profitability is a basic need in decision making (Hidayat, 2021). Perkembangan harga saham tidak lepas dari perkembangan kinerja suatu perusahaan yang ditunjukkan dengan profitabilitasnya. Historically, if a

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company's performance increased then the stock price would reflect that through an increase in the stock price, and vice versa (Swathi, 2022). The higher the company's profit, the more the stock price will be affected (Utama, A. N. B., 2023). When profits increase, stock prices tend to increase, conversely, when profits decrease, stock prices also decrease (Utama, A. N. B., 2023). This study aims to examine the effect of profitability ratio on stock price in food and beverage sub-sector companies listed on the IDX. The profitability ratio variables studied are four ratios, namely ROA, ROE, EPS and NPM. Return on Assets (ROA) is used to measure the return on total assets after costs and taxes. The return on total assets or total investment shows management's performance in using company assets to generate profits (profitability) While Return on Equity (ROE) describes the extent to which the company's ability to generate profits that can be obtained by shareholders (Almira & Wiagustini, 2020).

Securities analysts and shareholders are generally very concerned about the Return on Assets (ROA) ratio. ROA is important for companies because ROA is used to measure the effectiveness of the company in generating profits by utilizing its assets. ROA is the ratio between profit after tax to total assets. The greater the ROA indicates the better the company's performance, because the rate of return (return) is greater. The EPS ratio provides an overview of the company's ability to generate net profit in each share. EPS has a strong influence on stock prices and when EPS increases the stock price also increases, and vice versa. The EPS ratio provides insight into a company's ability to generate earnings per share. EPS has a strong influence on the stock price and when EPS increases the stock price also increases and vice versa. The NPM ratio is used to measure how much net profit can be obtained from each rupiah of the Company's sales (Munandar & Alvian, 2022). In addition, this ratio is also useful for measuring the level of efficiency of total expenses in the company, the more efficient a company is in spending its costs, the greater the level of profit that will be obtained by the company (Rahman & Shamsuddin, 2019).

In this study, researchers used food and beverage sub-sector companies as the population as well as the sample studied because these sub-sector companies are companies that have a wide scope and are also stable in facing economic changes (Utama & Suryani, 2023). Based on this, researchers are interested in conducting research to find out whether there is an effect of profitability on stock prices in food and beverage companies on the Indonesia Stock Exchange.

### RESEARCH METHODS

#### *Types of Research*

This type of research is quantitative research with regression method (Sugiyono, 2020). The research was conducted on food and beverage sub-sector companies listed on the IDX from 2020 to 2022.

#### *Data Sources*

The data of this study used secondary data. Secondary data are data obtained indirectly by researchers (Danar Pramita et al., 2021). This secondary data, for example, is sought through documentation data that has been recorded by the company studied, books, magazines, statements or other publications. The data used in this study was collected by documentation method, namely by using references from the Indonesian stock exchange to the Financial Statements of Food and Beverage Sub-Sector companies listed on the Indonesia Stock Exchange during the period 2020 to 2022.

#### *Population and Sample*

Population is the whole studied, events, or events that are of concern to researchers to study (Djaali, 2021). The population used as a sample frame for this study is all food and beverage sub-sector companies that have gone public in Indonesia listed on the Indonesia Stock Exchange during 2020 to 2022 as many as 26 food and beverage sub-sector companies.

The sample is the part of the population that consists of elements that are expected to have characteristics that are representative of the population. Because the population of less than 50 companies engaged in food and beverages, as many as 26 companies are used as research material.

#### *Data Analysis Techniques*

In data analysis, hypothesis testing was carried out with multiple linear regression analysis. This analysis is used to determine the effect between the independent variables of profitability from the ratio of ROA ( $X_1$ ), ROE ( $X_2$ ), EPS ( $X_3$ ) and NPM ( $X_4$ ) on variables tied to stock prices ( $Y$ ), with the formula:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Where:

Y = Stock price

a = Constant value

b1 b2 = Regression coefficient X

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$X_1$	= ROA ( <i>Return On Asset</i> )
$X_2$	= ROE ( <i>Return On Equity</i> )
$X_3$	= EPS ( <i>Earning Pershare</i> )
$X_4$	= NPM ( <i>Net Profit margin</i> )
E	= <i>Error</i>

Then this F Test is carried out to test the level of significance of the influence together of the independent variables Profitability ratio ROA ( $X_1$ ), ROE ( $X_2$ ), EPS ( $X_3$ ) and NPM ( $X_4$ ) on the dependent variable stock price (Y). Furthermore, the t test is carried out, this test is to test the level of significance of the influence of each or partially independent variable Profitability ratio ROA ( $X_1$ ), ROE ( $X_2$ ), EPS ( $X_3$ ) and NPM ( $X_4$ ) on the dependent variable stock price (Y). Then looking at the Coefficient of Determination ( $R^2$ ) table is to determine the degree of influence in the form of percentage of free variables (profitability ratio ROA ( $X_1$ ), ROE ( $X_2$ ), EPS ( $X_3$ ) and NPM ( $X_4$ ) to variables bound to stock price (Y).

### DISCUSSION AND DISCUSSION

#### 1. Discussion

The results of the regression analysis of the effect of ROA (Return on Assets), ROE (Return on Equity), EPS (Earnings per Share), and NPM (Net Profit Margin) on stock prices are presented in table form as follows:

**Tabel 3.1. Coefficient**

Variable	Koefisien	T-Stat	P-value
Intercept	10.244	3.215	0.003
ROA	0.835	2.678	0.011
ROE	1.233	4.568	0.000
EPS	0.512	1.354	0.088
NPM	0.362	1.980	0.032

**Source:** Data in Processing, Excell 2023

In the regression results above, there are four independent variables namely ROA, ROE, EPS, and NPM which are used to analyze their effect on the dependent variable, namely stock price. - Intercept indicates the price of a stock when all independent variables are at zero. The coefficient of 10.244 indicates that the minimum share price is \$10.244.

- An ROA coefficient of 0.835 indicates that every increase of one unit of ROA will lead to an increase in the stock price by 0.835.
- The ROE coefficient of 1,233 indicates that every increase of one unit of ROE will lead to an increase in the stock price of 1,233%.
- An EPS coefficient of 0.512 indicates that every increase in one unit of EPS will lead to an increase in the share price of 0.512.
- An NPM coefficient of 0.362 indicates that every increase in one unit of NPM will lead to an increase in the share price of 0.362.

T-Stat is used to test the statistical significance of the regression coefficient, while P-value is used to test the overall significance. All independent variables had a significant T-Stat (greater than 1.96) and a P-value lower than 0.05, except the EPS variable which had a P-value of 0.088 (higher than 0.05). This shows that ROA, ROE, and NPM significantly affect the stock price, while EPS does not significantly affect the stock price.

#### 1. Discussion

ROA can provide an idea of the efficiency of using assets in generating income. If the ROA of a food and beverage company increases, this can indicate a higher level of profit as well as efficiency in utilizing the company's assets to generate profits. In this case, investors can see an increase in ROA as a positive signal and tends to have an impact on the increase in the company's stock price. However, the effect of ROA on stock prices cannot be viewed singly. Other factors such as competition in the food and beverage industry, economic conditions, and other external factors can also affect a company's stock price. Therefore, it is important to look at ROA in a broader context and consider other factors that can affect the share price of a food and beverage company.

A high ROE can show the company's efficiency in managing invested capital and generating considerable profits. Investors tend to see a high ROE as an indicator of good performance and can drive up a company's stock price. However, keep in mind that

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the effect of ROE on stock prices should be reviewed in the context of overall market conditions, competition, and other factors that can have an effect on the share price of food and beverage companies. In addition, ROE should also be compared to industry averages to gain a better perspective on company performance.

An increase in EPS can indicate improved earnings per share as well as better financial performance of the company. Investors tend to see an increase in EPS as a positive signal and may have an impact on the company's stock price increase. However, it's important to remember that the effect of EPS on a share price doesn't just depend on the size of earnings per share itself. Factors such as a company's credit rating, competition in the food and beverage industry, and overall market conditions can also affect stock prices. Therefore, EPS must be considered together with other factors to see its effect on the share price of a food and beverage company.

A high NPM may indicate that the company has a good level of efficiency in generating profits from the sale of its products. Investors tend to see high NPM as a sign of good financial performance and may have an impact on rising company stock prices. However, it is important to look at NPM in a broader context and consider other factors that can affect the share price of food and beverage companies. Competition in the food and beverage industry, production costs, raw material prices, and marketing efforts can also affect a company's financial performance and keep stock prices stable.

### CONCLUSIONS

Food and beverage sub-sector companies listed on the IDX from 2020 to 2022 have almost most of their profitability ratios affect stock prices, only one ratio that has an insignificant effect on stock prices is the EPS ratio.

ROA, ROE, EPS, and NPM can provide an overview of a food and beverage company's financial performance. Although these factors can affect a company's stock price, it is worth noting that there are many other factors that should also be considered. Therefore, it is important for investors to conduct a thorough analysis and consider all relevant factors before making an investment decision.

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