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Examines several things that affect the price of banking stocks: Evidence from Indonesia

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ABSTRACT

Purpose: This study analyzes the effect of return on assets (ROA), net profit margin (NPM), debt-to-equity ratio (DER), and earnings per share (EPS) on the share price of banking companies on the Indonesia Stock Exchange (IDX).

Research Design and Methodology: This study uses secondary data from 6 banking companies selected by purposive sampling based on financial reports for 2018-2022. The analysis was conducted using IBM SPSS version 25 to test the relationship between these variables.

Findings and Discussion: The analysis shows that EPS has a positive and significant effect on stock prices, while DER shows a negative but insignificant effect. ROA and NPM show a positive but insignificant effect.

Implications: This research guides investors to pay more attention to EPS when making investment decisions and encourages companies to improve operational performance to attract investors.

Introduction

The stock market plays a critical role in the financial system by enabling the trading of shares of publicly traded companies, offering a vital platform for investors and corporations alike. Companies listed on the Indonesia Stock Exchange (IDX) initially offer shares through an initial public offering (IPO) in the primary market, with subsequent trading taking place in the secondary market (Ajeng et al., 2023). Investors naturally aim to maximize returns, desiring their stock prices to rise continually, thus avoiding significant financial losses resulting from poor investment decisions (Wijaya & Suarjaya, 2017). Analyzing stock prices accurately is crucial for investors, as misjudgments can lead to substantial losses. Fundamental and technical analyses are the two primary methods employed for stock price evaluation. Many investors increasingly overlook fundamental analysis and favor technical analysis despite its importance. Fundamental analysis evaluates a company's performance based on various indicators, providing insights into the company's long-term value and financial health (Pandansari, 2016). Ignoring this approach has been linked to several significant stock price declines in the market. Fundamental analysis involves examining accurate data to evaluate or project a stock's value, typically using financial and market ratios to predict stock prices or returns. Key ratios include Return on Assets (ROA), Net Profit Margin (NPM), debt-to-equity ratio (DER), and Earnings Per Share (EPS) (Samsuar & Akramunnas, 2017). The primary goal is to ensure the stocks purchased are from companies with solid performance metrics, thereby minimizing the risk of delisting from the exchange (Raharjo & Muid, 2018). The increasing neglect of fundamental analysis in favor of other methods

underscores a significant issue within the investment community, necessitating renewed attention and research to highlight its continued relevance and benefits.

Recent studies highlight the critical importance of fundamental analysis in understanding stock price movements and making informed investment decisions. Research has shown that fundamental indicators such as Return on Assets (ROA), Net Profit Margin (NPM), debt-to-equity ratio (DER), and Earnings Per Share (EPS) play significant roles in predicting stock prices. For instance, recent studies have demonstrated that these financial ratios are crucial for evaluating a company's long-term value and financial health, thus influencing investor decisions (Raharjo & Muid, 2018); Samsuar & Akramunnas, 2017). The application of fundamental analysis has been associated with more accurate predictions of stock performance, as it considers a company's intrinsic value (Wijaya & Suarjaya, 2017). These studies underline investors' need to incorporate fundamental analysis into their evaluation processes to make well-informed investment choices. However, there are notable limitations and gaps in the current research. Some studies have provided inconsistent results regarding the impact of various financial ratios on stock prices. For example, while Rohmatun (2017) found that CR, DER, ROA, ROE, and EPS significantly affect stock prices, (Alifatussalimah & Sujud, 2020) reported that only ROA and DER negatively impacted stock prices, with NPM showing no significant effect. The studies often focus on short-term market movements, neglecting the long-term implications of fundamental analysis Hawa & Prijati (2017). Moreover, more comprehensive research needs to examine the banking sector within the Indonesian stock market, highlighting the need for further investigation to clarify these relationships (Anggadini & Tarsiah, 2017).

Despite the advancements in fundamental analysis research, there still needs to be significant gaps between current empirical findings and theoretical expectations. One major issue is the inconsistent impact of financial ratios on stock prices reported across various studies. For instance, while Rohmatun (2017) found that CR, DER, ROA, ROE, and EPS significantly affect stock prices, Alifatussalimah & Sujud (2020) indicated that only ROA and DER have a negative impact, with NPM showing no significant effect. Similarly, Hawa & Prijati (2017) observed that ROA, NPM, and EPS positively and significantly influence stock prices, whereas DER does not. These discrepancies suggest that the influence of these financial ratios might vary depending on the sector or specific market conditions, necessitating more sector-specific research. Another gap is the tendency of existing studies to focus on short-term market movements, often overlooking the long-term implications of fundamental analysis. While short-term analyses can provide immediate insights, they must capture companies' comprehensive value and growth potential, which are critical for long-term investment strategies (Anggadini & Tarsiah, 2017). This short-term focus limits the applicability of findings for investors looking to make long-term investments. More research needs to be done, specifically examining the banking sector within the Indonesian stock market. Given the banking sector's unique regulatory environment and financial dynamics, studies focusing on general market conditions may only partially capture the nuances affecting banking stocks. As a result, there is a need for comprehensive research that specifically addresses how fundamental financial variables impact the stock prices of banking companies listed on the Indonesia Stock Exchange (Raharjo & Muid, 2018).

Given the gaps in existing research, this study aims to provide a comprehensive understanding of the impact of fundamental financial variables on stock prices in the banking sector listed on the Indonesia Stock Exchange (IDX). The primary research questions guiding this study are: How do Return on Assets (ROA), Net Profit Margin (NPM), Debt to Equity Ratio (DER), and Earnings Per Share (EPS) individually and collectively influence the stock prices of banking companies on the IDX? What are the implications of these findings for investors and policymakers? The objectives of this research are twofold: First, to empirically test the impact of ROA, NPM, DER, and EPS on stock prices of banking companies listed on the IDX, and second, to provide actionable insights for investors and policymakers to enhance their decision-making processes. By focusing specifically on the banking sector, this study aims to address the unique regulatory environment and financial dynamics that influence banking stocks, offering a detailed sector-specific analysis that has been largely overlooked in previous research. The novelty of this research lies in its thorough examination of the Indonesian banking sector's fundamental financial variables and their direct impact on stock prices. Unlike prior studies that provide general market analyses, this study zeroes in on the banking sector, considering the

unique factors that affect banking stocks. Additionally, by integrating both short-term and long-term perspectives, this research offers a holistic view of the implications of fundamental analysis for immediate and future investment strategies. By addressing these questions, the study aims to fill the gaps in the current literature and provide robust, empirically backed insights into the role of fundamental analysis in stock price determination within the Indonesian banking sector.

Literature Review

The Importance of Fundamental Analysis in Stock Selection

Fundamental analysis is essential for stock selection, providing investors with a framework to evaluate a company's intrinsic value. Handini & Astawinetu (2020) explain that market information significantly influences stock prices, which fluctuate with new developments in a company. Joyous news, like higher earnings, tends to raise a company's stock value, while negative news, such as poor earnings reports, can lead to a decline. This highlights the close tie between stock prices, market information, and company performance. Fundamental analysis examines a company's financial data, including critical metrics like Return on Assets (ROA), Net Profit Margin (NPM), Earnings Per Share (EPS), and debt-to-equity ratio (DER) (Utami, 2016). These metrics provide insights into a company's profitability, operational efficiency, and financial health. ROA measures asset utilization effectiveness, NPM indicates profit percentage after expenses, EPS reflects profit per share, and DER shows financial leverage by comparing liabilities to equity (Muslim, 2023). Wulandari (2019) emphasizes that stock price movements are closely linked to company performance. Companies with vital financial health and robust performance metrics are more likely to see their stock prices appreciate as investors pay premiums for consistently profitable and well-managed firms. Conversely, companies with poor financial health or declining performance may drop their stock prices as investors become cautious of potential risks and lower returns.

Recent studies underscore the significance of fundamental analysis in stock selection. Raharjo & Muid (2018) highlight that financial ratios such as ROA, NPM, EPS, and DER are significant predictors of stock performance. Their research shows that these indicators are essential for assessing a company's value and growth potential, equipping investors with tools for informed decision-making. Similarly, Samsuar & Akramunnas (2017) argue that fundamental analysis comprehensively evaluates a company's financial health, helping investors identify undervalued stocks with solid growth prospects. Alifatussalimah & Sujud (2020) demonstrate the nuanced nature of fundamental analysis. They found that while some financial ratios like ROA and DER negatively impact stock prices, EPS often has a positive influence. Different metrics can yield varying insights depending on the company's context and market conditions. Their research advocates using a combination of financial ratios to gain a holistic view of a company's financial standing and make more accurate stock performance predictions. Hawa & Prijati (2017) emphasize the long-term benefits of fundamental analysis. They argue that while technical analysis provides short-term insights based on market trends, fundamental analysis offers a deeper understanding of a company's intrinsic value and long-term growth potential. By focusing on financial health and performance metrics, fundamental analysis helps investors identify stocks likely to generate sustainable returns over time.

Financial Ratios as Indicators of Company Performance

Financial ratios are essential for assessing a company's performance, providing insights into its financial health and operational efficiency. Satriawan & Utiyati (2019) categorize these ratios into four types: liquidity, profitability, leverage, and activity ratios. Liquidity ratios, such as the current and quick ratios, measure a company's ability to cover short-term obligations (Gunawan, 2023). The current ratio (current assets divided by current liabilities) indicates liquidity, while the quick ratio, excluding inventory, offers a stricter measure. Profitability ratios, including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), assess earnings relative to revenue, assets, and equity (Purnama & Sari, 2022). ROA (net income divided by total assets) measures asset utilization effectiveness, ROE (net income divided by shareholders' equity) indicates earnings growth, and NPM (net income divided by revenue) shows profit after expenses. Leverage ratios, such as the Debt-to-Equity Ratio (DER) and Interest Coverage Ratio, evaluate financial leverage and long-term obligation

management. DER (total liabilities divided by shareholders' equity) indicates debt proportion, while the Interest Coverage Ratio (EBIT divided by interest expenses) measures debt repayment ability. Activity ratios, including Inventory Turnover Ratio and Accounts Receivable Turnover Ratio, measure asset utilization efficiency. Inventory Turnover (cost of goods sold divided by average inventory) indicates inventory management efficiency. In contrast, Accounts Receivable Turnover (net credit sales divided by average accounts receivable) measures revenue collection efficiency (Haeruddin, 2023).

Samsul (2015) emphasizes that financial ratios simplify business performance analysis for management, investors, and creditors, aiding in identifying financial strengths and weaknesses. Financial ratios provide a standardized method of evaluating and comparing companies, making it easier to identify trends and make informed decisions (Noy, 2023). Recent studies highlight the continued relevance of financial ratios in performance assessment. Satriawan & Utiyati (2019) state that liquidity ratios are crucial for assessing a company's short-term financial stability. High liquidity ratios indicate that a company can comfortably meet its short-term obligations, reducing the risk of financial distress. Profitability ratios, on the other hand, are essential for evaluating a company's ability to generate profits from its operations. High profitability ratios suggest strong financial performance and operational efficiency, making the company attractive to investors. Leverage ratios are essential for understanding a company's financial risk and long-term solvency. Companies with high leverage ratios may face higher financial risk as they rely more heavily on debt financing (Poursoleiman et al., 2020). However, moderate leverage can enhance returns on equity by using borrowed funds to generate higher profits. Activity ratios provide insights into how efficiently a company utilizes its assets, indicating its operational efficiency and effectiveness in managing inventory and receivables.

The Role and Benefits of the Capital Market

The capital market is a fundamental component of the financial system, where long-term financial instruments such as stocks and bonds are traded. Egam et al. (2017) define the capital market as a meeting place for the demand and supply of capital, facilitating transactions in equity and debt securities. This market is essential for channeling funds from savers to borrowers, supporting economic growth and development. One of the primary roles of the capital market is to provide long-term financing for businesses. Companies can raise substantial capital by issuing stocks and bonds, which is crucial for funding large-scale projects, expansion, and operational needs (Kuzmin et al., 2019). This access to capital allows businesses to invest in new technologies, infrastructure, and human resources, ultimately contributing to economic progress and innovation. Hasanah and Suryani (2022) highlight that this financing mechanism is particularly vital for industries that require significant upfront investment and have long gestation periods. The capital market offers valuable investment opportunities for investors looking to diversify their portfolios (Huebschmann & Halilov, 2019). By investing in a mix of stocks, bonds, and other securities, investors can spread their risk and potentially achieve higher returns. This diversification is crucial in managing investment risk, as it mitigates the impact of poor performance in any asset or sector. The capital market thus plays a critical role in wealth creation and financial security for individuals and institutional investors.

The capital market also serves as an economic trend indicator. The stock market's performance is often a barometer of the economy's overall health. Rising stock prices generally indicate economic growth and investor confidence, while falling prices may signal economic downturns or uncertainties (Bloom, 2014). This information is valuable for policymakers, economists, and business leaders, providing insights into economic trends and potential developments (Purwanti, 2023). The capital market's ability to reflect economic conditions makes it a crucial tool for economic analysis and decision-making. The capital market contributes to financial stability by facilitating the efficient allocation of resources. It ensures that capital flows to its most productive uses, supporting industries and companies with the highest growth potential. This efficient allocation helps optimize economic output and productivity. Moreover, the capital market provides liquidity, enabling investors to buy and sell securities quickly, essential for maintaining market confidence and stability. The capital market also significantly promotes transparency and corporate governance (Liu et al., 2023). Listed companies must adhere to strict regulatory standards, including regular disclosure of financial

information and adherence to corporate governance practices. This transparency helps build investor trust and ensures that companies are accountable for their performance and decision-making. Effective corporate governance and transparency are critical for maintaining the integrity of the capital market and protecting investor interests (Gupta et al., 2017). The capital market creates employment opportunities and fosters healthy business ownership. The activities within the capital market, such as brokerage services, investment banking, and asset management, generate numerous jobs and support the financial services industry. Additionally, by enabling broad-based ownership of companies through stock ownership, the capital market encourages a culture of entrepreneurship and investment.

Types of Stocks and Stock Price Mechanisms

Understanding the different types of stocks and the mechanisms that determine their prices is crucial for informed investment decisions. Stocks are categorized into two main types: common stocks and preferred stocks. Common stocks represent ownership in a company, entitling shareholders to dividends and voting rights (Fos & Holderness, 2023). They are more volatile and riskier than preferred stocks but offer the potential for higher returns through capital appreciation, making them attractive to growth-seeking investors (Deluard, 2022). Preferred stocks, on the other hand, offer fixed dividends and have priority over common stocks in liquidation events. Preferred shareholders typically do not have voting rights but receive dividends before common shareholders and have a higher claim on assets if the company goes bankrupt. This makes them less risky and appealing to investors seeking steady income with lower risk (Bustani, 2020). Supply and demand mechanisms primarily determine stock prices in the capital market. High demand for a stock, driven by positive news or strong earnings, tends to raise its price. Conversely, oversupply tends to lower prices due to negative news or poor performance. This dynamic interplay between supply and demand is fundamental to stock price movements...

High stock prices usually indicate active trading and strong investor interest, driven by positive perceptions of a company's prospects. When investors are confident in a company's potential to generate profits and grow, they are more likely to buy its shares, raising the stock price (Wu & Rui, 2022). This is common during economic expansion or favorable news, such as exceeding earnings expectations or launching a successful product. Conversely, low stock prices often suggest a lack of demand or oversupply, occurring when a company underperforms, faces negative publicity or operates in a declining industry. Investors may sell their shares, decreasing the stock price. Understanding these market dynamics helps investors gauge sentiment and make informed buy or sell decisions. Comprehending the types of stocks and pricing mechanisms is essential. Common stocks offer higher returns and growth potential but come with higher risk, appealing to growth-oriented investors (Amoah, 2022). Preferred stocks provide steady income with lower risk, making them attractive to those seeking stability. Understanding how supply and demand influence stock prices can reveal market trends and help anticipate price movements. Recent studies reinforce these concepts. Alifatussalimah and Sujud (2020) found that investor behavior significantly impacts stock prices through supply and demand dynamics, emphasizing the need to stay informed about market conditions. Hawa & Prijati (2017) highlighted the importance of analyzing market trends and investor behavior for informed investment decisions.

Research Design and Methodology

This research is a quantitative study. The population in this study consists of 45 banking companies listed on the Indonesia Stock Exchange (IDX), from which six companies were selected based on criteria for the past five years. The sampling method used is Purposive Sampling, which involves selecting samples based on specific criteria. The sampling criteria are as follows:

1. Banking companies listed on the Indonesia Stock Exchange from 2018 to 2022.
2. Companies that published financial reports from 2018 to 2012.
3. Based on these criteria, the sample of this study consists of 6 companies, resulting in 30 annual reports observed from 2018 to 2022.

The source of data for this research is secondary data. This data is derived from the financial statements recorded by the banking companies listed on the Indonesia Stock Exchange, obtained from the official IDX website at www.idx.co.id. The data collection technique used in this research is a documentary study, which involves collecting secondary documents of financial statements from the banking companies listed on the Indonesia Stock Exchange. This study employs path analysis using IBM SPSS to test the four hypotheses. Each hypothesis will be analyzed using IBM SPSS Statistics version 25 software to examine the influence between independent and dependent variables. Before data processing, the data will be tested using classical assumption tests to ensure no normality, multicollinearity, or heteroscedasticity issues.

Table 1. Operational Variable

Variable	Indicator	Major Reference
Return On Asset	$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Jumlah Assets}} \text{x } 100\ \%$	(Savitri & Haryanto, 2016; Sianipar, 2015)
Debt to Equity	$\text{DER} = \frac{\text{Total Liabilities}}{\text{Equity}} \times 100$	(M. R. Utami & Darmawan, 2018; Wicaksono, 2015)
Net Profit Margin	$\text{NPM} = \frac{\text{Net Profit After Tax}}{\text{Total Net Sales}} \text{x } 100\ \%$	(Alifatussalimah & Sujud, 2020; Hawa & Prijati, 2017)
Earning Per Share	$\text{EPS} = \frac{\text{Net Profit After Ta}}{\text{Total Shares outstanding}}$	(Manurung & Haryanto, 2015; Wicaksono, 2015)

Source: Output SPSS

Findings and Discussion

Findings

The initial phase of our analysis involves the crucial step of conducting descriptive statistical tests. These statistics, which include each variable's mean, standard deviation, maximum, and minimum, provide a fundamental overview of the data. The independent data of four variables and one dependent variable, namely stock price, are subjected to these tests, with the results presented in Table 2.

Table 2. Descriptive Statistics

	N	Min	Max	Sum	Mean	Std. Deviation
ROA_(X1)	55	.13	3.11	1.6009	.82197	4.137
NPM_(X2)	55	1.92	141.00	22.3655	19.19405	4.464
DER_(X3)	55	.38	14.75	6.3078	2.68833	
EPS_(X4)	55	6.72	982.67	285.7969	302.19265	
Share Price _(Y)	55	74.00	28175.00	4582.3273	6188.24702	
Valid N (listwise)	55					

Source: Output SPSS

Table 2 indicates that the study examines 55 data points. Return on Asset (ROA) ranges from 0.13% to 3.11%, with an average of 1.6009%, showing a mean contribution of 1.60% to the Banking Industry sub-sector on the IDX. The Net Profit Margin (NPM) has an average value of 22.3655%, indicating an average contribution of 22.36% to these companies. The Debt-Equity Ratio (DER) averages 6.30%, representing its mean contribution to the sub-sector. Earnings Per Share (EPS) also averages 6.30%, reflecting the average contribution of the debt-equity ratio to the banking industry sub-sector companies. The average stock price is Rp. 4,582,327, indicating its average contribution to the sub-sector. The stock price ranges from a minimum of Rp. 74 to a maximum of Rp. 28,175.

The second stage is the classic assumption test, which consists of a multicollinearity test, a heteroscedasticity test, and a normality test. The normality test determines whether the dependent and independent variables have a standard or near-normal distribution in the regression model. In this study, a normal distribution will form a straight diagonal line, and the residual data plotted will be compared to the diagonal line. If the distribution of residual data is normal, then the line describing the actual data will follow the diagonal line.

Figure 1. Normal Probability Plot Graph

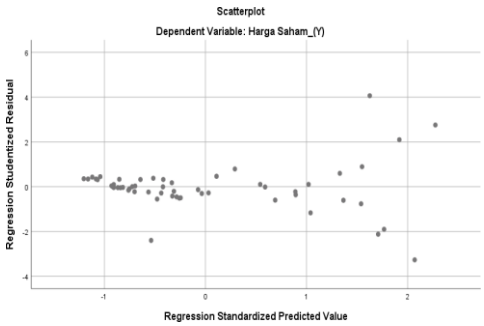

Figure 2. Scatterplots Graph

Based on the results of the SPSS output in Figure 1, the dots follow and approach the diagonal line, so it can be concluded that the regression model fulfills the normality assumption. Based on the scatterplot output in Figure 2, it is known that the data points spread above and below and do not form a wavy pattern, then narrow and widen. Thus, there is no heteroscedasticity problem, so a good and ideal regression model can be fulfilled. Furthermore, the multicollinearity test aims to see whether there is a high correlation between the independent variables in a multiple linear regression model. It can be seen from the tolerance value and VIF (variance inflation factor) value to test multicollinearity. The model can be free from multicollinearity if the VIF value is not more than ten and the tolerance value is not less than 0.1. The test results can be seen in Table 3.

Table 3. Multicolonierity Test Results and Multiple Linear Regression

Coefficients[a]

Model		Tolerance	VIF	B (Unstd. Coeff.)	Std. Error	Beta (Std. Coeff.)
1	(Constant)	-	-	1702.995	2350.733	-
	ROA (X1)	0.411	2.432	366.276	1042.414	.049
	NPM (X2)	0.793	1.261	41.511	32.141	.129
	DER (X3)	0.704	1.420	-393.947	243.579	-.171
	EPS (X4)	0.505	1.979	13.469	2.558	.658

a. Dependent Variable: Stock Price_(Y)
Source: Primary data processed by SPSS

Table 3 shows that all independent variables have a tolerance value of 1 and a Variance Inflation Factor (VIF) value below 1, so there is no multicollinearity disorder between them. Furthermore, all hypotheses are tested through multiple linear regression analysis. Multiple linear regression analysis is a linear relationship between the independent variables ROA (X1), NPM (X2), DER (X3), EPS (X4), and Stock Price (Y) with the dependent variable Stock Price (Y). This analysis is to determine the direction of the relationship between the independent variable and the dependent variable, whether positive or negative and to predict the value of the dependent variable if the value of the independent variable increases or decreases; more details can be seen in Table 3.

$$Y = 1.702.995 + 0.049\ ROA + 0.129\ NPM + (-0.171\ DER) + 0.658\ EPS$$

In the multiple linear regression equation, the constant value is 1.702.995, - which means that if ROA, NPM, DER, and EPS are continuous, the stock price value is Rp 1.702,995. The Standardized

Coefficient value of the ROA variable regression (X1) is 0.049; if ROA increases by 1%, the stock price will increase by 0.49%. The coefficient is positive, meaning there is a positive relationship between ROA and stock price; the higher the ROA value, the higher the stock price. The Standardized Coefficients value of the NPM variable regression (X2) is 0.129, which means that if NPM increases by 1%, the stock price will increase by 12.9%. The coefficient is positive, meaning there is a positive relationship between NPM and stock price; the more NPM increases, the more the stock price increases. The Standardized Coefficient value of the DER variable regression (X3) of -0.171 means that if DER increases by 1%, the stock price will decrease by 17.1%. The negative coefficient indicates a negative relationship between DER and stock price; the more DER increases, the lower the stock price. The Standardized Coefficient value of the EPS (X4) variable regression is 0.658, meaning that if EPS increases by 1%, the stock price will rise by Rp 658. The coefficient is positive, meaning there is a positive relationship between EPS and stock price; the higher the EPS value, the higher the stock price. Furthermore, the coefficient of determination analysis determines the model's ability to explain the dependent variable. The study's results are shown in Table 4.

Table 4. Test Results of the Coefficient of Determination and F Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sum of Squares	df	Mean Square	F	Sig.
1	0.778	0.606	0.574	4037.61288					
Regression					1252781774.03	4	313195443.507	19.212	.000
Residual					815115888.079	50	16302317.762		
Total					2067897662.10	54			

a. Predictors: (Constant), EPS_(X4), DER_(X3), NPM_(X2), ROA_(X1)
b. Dependent Variable: Share Price_(Y)
***Source**: Primary data processed by SPSS*

Table 4 indicates a coefficient of determination (R^2) of 0.606, meaning 60.6% of the variation in stock prices (Y) of banking industry sector companies listed on the IDX is explained by ROA (X1), NPM (X2), DER (X3), and EPS (X4). Other factors not examined in this study impact the remaining 39.4%. The F statistical test assesses whether the model's independent variables jointly influence the dependent variable. The F-count of 19.212, more significant than the F-table value 2.40, with a significance level of 0.000, indicates that the model is essential. Since the significance level is less than 0.05, it can be concluded that ROA, NPM, DER, and EPS simultaneously significantly affect stock prices. These results support the hypothesis that return on assets, net profit margin, debt-equity ratio, and earnings per share collectively influence stock prices in the banking industry companies listed on the IDX.

Partial tests were conducted with the utmost care and precision to determine the effect of each independent variable, namely return on assets, net profit margins, debt-equity ratios, and earnings per share, on stock prices in the banking industry companies listed on the IDX. The meticulousness of these tests ensures the results' reliability, as seen in Table 5.

Table 5. Hypothesis Test Results (t-test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1702.995	2350.733		.724	.472
	ROA_(X1)	366.276	1042.414	.049	.351	.727
	NPM_(X2)	41.511	32.141	.129	1.292	.202
	DER_(X3)	-393.947	243.579	-.171	-1.617	.112
	EPS_(X4)	13.469	2.558	.658	5.265	.000

a. Dependent Variable: Stock Price_(Y)
Source: Primary data processed by SPSS

The results of the multiple linear regression tests reveal significant insights. The t-value for ROA (0.351) is less than the t-table value (2.008) with a significance level of 0.727, indicating that ROA has a positive but insignificant effect on stock prices. Thus, Hypothesis 2 is accepted, showing that ROA size does not affect stock prices. For the net profit margin (NPM), the t-value (0.202) is smaller

than the t-table value (2.008), with a significant level of 0.793, indicating a positive but insignificant effect on stock prices. This suggests that even if a company generates a net profit, it may not be maximized, leading investors to be cautious and potentially lower market prices. Hypothesis 3 is accepted. The debt-equity ratio (DER) also shows a t-value (1.617) smaller than the t-table value (2.008) with a significance level of 0.112. This indicates a negative but insignificant effect on stock prices, meaning DER does not impact stock prices. The increase in DER is not reflected in the share prices of companies listed on the IDX. Earnings per share (EPS) shows a t-value (5.265) that is more significant than the t-table value (2.008), with a significance level of 0.000, indicating a positive and significant effect on stock prices. This means EPS positively impacts stock prices.

Discussion

Return on Assets on Stock Prices

Return on Assets (ROA) is a ratio that indicates how effectively a company's assets are used to generate profit. ROA is calculated by dividing net income by total assets. This financial ratio measures the company's performance, particularly its profitability. A higher ROA indicates that the company generates net profit from its assets more effectively. This ratio shows the net profit earned by the company when measured against the value of its assets, meaning it measures the overall operational effectiveness of the company. The higher the ROA, the more attractive the stock is to investors. A positive ROA reflects efficient asset management, leading to higher company profits. High profits increase demand for the company's stock and stock prices. ROA has a positive relationship with stock prices... The average ROA of all sample companies during the observation period is 1.60%. The sample company with the highest average ROA is PT Bank Central Asia, with a value of 2.9%. In contrast, the company with the lowest average ROA during the observation period is PT. Bank Maybank Indonesia Tbk (BNII), with an average of 0.88%. Partially, ROA has a positive but not significant effect on stock prices. This means that the size of ROA does not substantially impact stock prices. Although ROA reflects how effectively a company uses its assets to generate profit, variations in ROA are not strong enough to influence investor decisions regarding stock prices. This finding contradicts previous studies by (Manoppo et al., 2017), which found that ROA significantly positively affects stock prices. According to their research, companies with higher ROA tend to attract more investors, increasing stock prices. However, in the context of this study, other factors may be more dominant in determining stock prices for banking companies listed on the Indonesia Stock Exchange during the analyzed period.

Net Profit Margin on Stock Prices

Research results indicate that the Net Profit Margin (NPM) has a positive but insignificant effect on stock prices. NPM is a ratio that shows a company's ability to generate net profit after tax. It is calculated by comparing net profit to sales. A higher NPM means the company is more productive, which boosts investor confidence. Consequently, a higher NPM leads to higher stock prices, while a lower NPM results in lower stock prices. A high NPM indicates that the company efficiently generates profit from its sales, demonstrating that it manages costs effectively. This efficiency reflects well on the company's company'slity, making it more attractive to investors. Investors can assess the company's efficiency and cost management through NPM. A company with a high NPM is seen as capable of maintaining strong profit margins, which reassures investors about the company's company's health and prospects. The company with the highest average Net Profit Margin (NPM) is PT. Bank Central Asia Tbk, at 39.43%, while PT. Bank CIMB Niaga Tbk has the lowest NPM at 10.95%. The highest average Return on Assets (ROA) from 2018 to 2022 occurred in 2022. These findings align with the research conducted by Alifatussalimah & Sujud (2020), which found that NPM does not significantly impact stock prices. This suggests that although a high NPM indicates a company generates substantial net profit from its sales, it does not necessarily translate into higher stock prices. PT. Bank Central Asia Tbk, with its high NPM, is seen as more efficient in managing costs and generating profits, enhancing investor confidence. On the other hand, PT. Bank CIMB Niaga Tbk's lower NPM reflects less efficiency in these areas. Despite the positive correlation between NPM and stock prices, the lack of significant impact implies that other factors are also at play in determining

stock prices within the banking sector listed on the Indonesia Stock Exchange. Therefore, while NPM is an essential metric for assessing profitability, it should be considered alongside other financial indicators when evaluating stock investments.

Debt to Equity Ratio on Stock Prices

The results of this study indicate that the debt-equity ratio (DER) has a negative and insignificant effect on stock prices. The DER measures the company's use of its equity to guarantee all its debts by comparing total company debt with its equity. A high DER harms company performance because higher debt levels mean higher interest burdens, reducing profits (Putri & Sampurno, 2016). This study demonstrates that DER does not affect companies' stock prices. In this context, signaling theory cannot be applied to the DER variable because the level of DER does not influence investors' interest in investing. The amount of debt is independent of investors to buy stocks, as their decision depends on how well the company utilizes its debt for operational costs. If the company successfully uses its debt for operations, it sends a positive signal to investors, leading to higher stock prices. Conversely, if the company fails to manage its debt effectively, it sends a negative signal, discouraging investors. The company with the highest average debt-equity ratio (DER) is PT. Bank Tabungan Negara (Persero) Tbk, at 10.55%, while PT. Bank Mandiri Tbk has the lowest DER at 10.95%. The highest average Return on Assets (ROA) from 2018 to 2022 occurred in 2018. Partially, DER has a negative and insignificant effect on stock prices, indicating that DER does not influence stock prices. For companies listed on the IDX, a rise in DER does not coincide with an increase in stock prices. This finding aligns with the research by (Patriawan & Sufian, 2021), which states that DER has a significantly negative impact on stock prices. This suggests that while DER measures a company's leverage by comparing total liabilities to shareholders, it does not affect investor behavior or stock prices in the banking sector. Therefore, despite its importance in evaluating financial risk, more than DER is needed to be a reliable predictor of stock price movements. Other factors must be considered when assessing the investment potential of banking companies listed on the IDX. The study highlights the need for a comprehensive approach to financial analysis, incorporating multiple metrics to gauge overall economic health and investment attractiveness.

Earning Per Share on Stock Prices

The study results indicate that earnings per share (EPS) positively and significantly affect stock prices. This is explicable because a company will generate higher earnings if it can effectively increase its profits through its operational activities. EPS is calculated by dividing net income by the number of outstanding shares. Each share of stock serves to represent the company's status. EPS indicates the profitability of a company for each share of stock. It measures how much profit a company makes for each share of its stock. A higher EPS indicates better profitability and is often an attractive indicator for investors, as it suggests that the company is generating sufficient earnings to reward its shareholders. Increased EPS typically signals a company's management and successful operational performance, attracting more investors and rising stock prices. A positive relationship between EPS and stock prices is expected. This finding aligns with the theoretical expectations that higher profitability, as depicted by EPS, enhances investor confidence and stock demand, ultimately leading to higher stock prices. The company with the highest average earnings per share (EPS) is PT. Bank Tabungan Negara (Persero) Tbk, with an EPS of 10.55%. Conversely, the company with the lowest debt-to-equity ratio (DER) is PT. Bank Mandiri Tbk, at 10.95%. The highest average Return on Assets (ROA) from 2018 to 2022. This study's findings align with those of Hawa & Prijati's (2017) study, which found that EPS positively and significantly impacts stock prices. This means that companies capable of increasing their EPS through effective operational performance tend to see a corresponding rise in their stock prices. Higher EPS reflects better profitability, which attracts investors and boosts stock demand, ultimately driving up stock prices. Therefore, EPS is a crucial indicator for investors, providing insight into the company's liability per share. Companies with higher EPS are generally seen as more profitable and financially healthy, making their stocks more attractive to investors. This positive relationship between EPS and stock prices underscores the importance of profitability in influencing investor decisions and market performance.

Conclusion

This study aimed to examine the influence of financial ratios, specifically Return on Assets (ROA), Net Profit Margin (NPM), Debt to Equity Ratio (DER), and Earnings Per Share (EPS), on stock prices in the banking industry listed on the Indonesia Stock Exchange (IDX). Using multiple linear regression analysis, the research identified significant insights into how these financial metrics relate to stock performance. The findings indicate that while ROA and NPM positively influence stock prices, DER negatively impacts stock prices due to the increased debt burden. EPS, notably, has a significant positive effect, making it a reliable predictor of stock prices.

The value of this research lies in its contribution to academic knowledge and practical application in financial analysis and investment. The study's originality is reflected in its focused analysis of the Indonesian banking sector, providing valuable insights for investors and financial analysts. By highlighting the importance of specific financial ratios, the research offers practical guidance for companies aiming to enhance their attractiveness to investors and investors seeking to make informed decisions.

However, this study has certain limitations that should be addressed in future research. The scope was limited to the banking sector, and future studies could expand to other industries listed on the IDX for a more comprehensive analysis. Incorporating more independent variables and increasing the sample size could provide a broader understanding of the factors influencing stock prices. Future researchers are encouraged to explore these areas to build on the findings of this study and contribute to developing more robust financial models and investment strategies.

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