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Examining Linkage Factors in Stock Prices

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ABSTRACT

Purpose: This study examines the influence of Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Earnings per Share (EPS) on the stock prices of companies included in the LQ45 index and listed on the Indonesia Stock Exchange during the 2019-2021 period. The research hypothesizes that each of these financial metrics has a significant impact on stock prices.

Research Design and Methodology: The research adopts a quantitative approach, utilizing secondary data from company financial reports on the Indonesia Stock Exchange website. The sample, comprising ten issuers, was selected using purposive sampling. The analysis was conducted using the Statistical Product and Service Solutions (SPSS 26) software to assess the relationships between the independent variables (ROA, ROE, NPM, EPS) and the dependent variable (stock prices).

Findings and Discussion: The findings reveal that ROA and NPM positively and significantly impact stock prices, indicating that companies with higher returns on assets and profit margins are likely to experience increases in their stock prices. Conversely, ROE has a negative and significant effect on stock prices, suggesting that higher returns on equity may not always align with higher stock prices. Additionally, EPS has a positive and significant effect on stock prices, highlighting its importance as a profitability measure for investors.

Implications: These results have practical implications for investors and company management, suggesting that improving ROA, NPM, and EPS can positively influence stock prices. However, the negative relationship between ROE and stock prices warrants further investigation. Future research should explore the underlying reasons for this inverse relationship and consider additional variables that may impact stock price movements.

Introduction

In the current era of modernization, capital is a crucial component in economic activities, especially for countries transitioning to a market economy system. The capital market serves as a vital source of progress in the economic sector, functioning as an alternative funding avenue for companies outside the banking sector. Capital markets provide an alternative funding source to obtain capital at relatively lower costs and serve as a medium for short- and long-term investments (Nenobais et al., 2022). For investors, the capital market offers a platform to allocate funds for investments, particularly in the form of shares (Jamilah, 2021). Stock investment is appealing to investors because it offers the potential for benefits such as capital gains or dividends. The capital market remains an attractive option for the business community, as evidenced by the increasing number of investors on the IDX. As reported by Purwanti (2022), IDX President Director Inarno Djajadi

noted that the number of capital market investors increased by over 1.57 million single investor identifications (SID), reflecting a 21% growth from the previous year.

The primary goal of any investment, regardless of the field or type of company, is to analyze stock prices to select stocks that offer the best return with minimal risk (Wahasusmiah & Badaria, 2020). One critical aspect that investors or potential investors must consider before deciding to invest in a company is the company's financial condition, which can be assessed through financial statements. Financial statements are crucial for analyzing a company's performance and providing insights into the company's development, business expansion potential, and overall health (Kurniati & Pratama, 2022). From an investor's perspective, a key indicator for measuring a company's future growth is its profitability rate (Hasanah & Enggariyanto, 2018). Profitability, defined as the company's ability to generate net income from its activities during an accounting period, is measured using several ratios, including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) (Dzikir et al., 2020). Additionally, market ratios, such as Earnings per Share (EPS), offer insight into how much investors or shareholders value a company, often paying a price higher than the book value of its shares (Prabowo, 2020).

However, the impact of these profitability ratios on stock prices is inconsistent across studies. Research by Santy (2017) and Rahmat & Fatimah (2022) found that return on assets positively and significantly affects a company's stock price. In contrast, Kurniati & Pratama (2022) reported no significant effect of return on assets on stock prices. Similarly, studies on return on equity also present mixed results. Rinati (2022) found a significant effect of return on equity on stock prices, while Prabowo (2020) and Kurniati & Pratama (2022) observed no significant impact. This inconsistency extends to the net profit margin ratio as well. Jamilah (2021) concluded that net profit margin positively and significantly affects stock prices, whereas Furniawan (2021) reported a significant negative effect. The inconsistencies also apply to market ratios such as EPS, where some studies (Wahasusmiah & Badaria, 2020; Dwi Pangestu & Yahya, 2022) found a positive and significant effect on stock prices, while Kurniati & Pratama (2022) found no significant effect.

Given the conflicting results in previous studies, this research aims to investigate the impact of profitability ratios—Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM)—and the market ratio represented by Earnings per Share (EPS) on stock prices. By analyzing these relationships, this study seeks to contribute to the ongoing debate and clarify these financial ratios' role in stock price determination. The novelty of this research lies in its comprehensive approach to examining the effects of multiple profitability and market ratios on stock prices, addressing the inconsistencies observed in prior research.

Literature Review

Review of Previous Research

Dwi Pangestu, Y. P., & Yahya (2022): This study investigates the impact of Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) on stock prices of automotive companies listed on the Indonesia Stock Exchange (IDX). The findings indicate that ROA and EPS have a significant positive effect on stock prices, while ROE has a negative effect.

Dzikir, A., Syahnur, & Tenriwaru (2020): This research explores the influence of Corporate Social Responsibility (CSR) on firm value, with profitability as a moderating variable, in the mining sector listed on the Indonesia Stock Exchange from 2016 to 2018. The study concludes that CSR positively impacts firm value, and this relationship is strengthened when profitability is high.

Firmansyah, M., Masrun, M., & Yudha S, I. D. K. (2021): The article compares qualitative and quantitative research methods, highlighting their essential differences and the contexts in which each method is most appropriately applied. It emphasizes the importance of choosing the correct methodology based on the research objectives.

Furniawan (2021): This study examines the effect of Earnings Per Share (EPS), Return on Equity (ROE), and Net Profit Margin (NPM) on the stock prices of companies in the LQ45 index listed on the

Indonesia Stock Exchange. The results reveal that EPS and NPM positively and significantly influence stock prices, while ROE has a negative impact.

Ghozali, I. (2011 & 2013): These books provide comprehensive guides on applying multivariate analysis using SPSS software, focusing on practical applications and interpretations of various statistical methods. The 2013 edition updates the content with newer IBM SPSS version 21 features.
Hasanah, A., & Enggariyanto, D. (2018): This paper analyzes the factors affecting Return on Assets (ROA) in manufacturing companies listed on the Indonesia Stock Exchange. The study identifies critical determinants of ROA, offering insights for managers aiming to improve financial performance.

Ismarinanda, & Bawono, A. D. B. (2022): The research assesses the impact of ROA, ROE, NPM, and EPS on stock returns in consumer goods companies listed on the Indonesia Stock Exchange from 2016 to 2019. The findings suggest that these financial ratios significantly influence stock returns, varying across different periods.

Jamilah, I. K. (2021): This study compares the effects of ROA, ROE, NPM, and the Debt-to-Equity Ratio (DER) on stock prices before and during the COVID-19 pandemic. It highlights the pandemic's impact on financial performance and investor behavior in the stock market.

Kurniati, E., & Pratama, V. Y. (2022): This article analyzes the effect of profitability ratios on the stock prices of health sector issuers listed on the Sharia Securities List from 2016 to 2020. The study finds that these ratios significantly predict stock price movements in the health sector.
Lenaini, I. (2021): This paper discusses sampling techniques used in educational research, particularly purposive and snowball sampling. It explains the methods' applications, advantages, and limitations in selecting research subjects.

Nenobais, A. H., Sia Niha, S., & Manafe, H. A. (2022): The study examines the influence of ROA, ROE, NPM, and EPS on stock prices through a literature review approach. The authors conclude that these financial ratios are crucial to predicting stock prices.

Prabowo, W. (2020): This research investigates the relationship between profitability and market ratios with stock prices in LQ-45 index companies listed on the Indonesia Stock Exchange from 2013 to 2017. The results show that these ratios significantly affect stock prices, providing a basis for investment decisions.

Purwanti, T. (2022): This news article reports the increase in the number of capital market investors in Indonesia. It highlights that by June 2022, there were 9 million investors, with a significant portion being active in trading. The article discusses the implications of this growth for the Indonesian stock market.

Rahmani, N. A. B. (2020): The paper examines the impact of ROA, ROE, NPM, Gross Profit Margin (GPM), and EPS on stock prices and growth, providing insights into how these financial indicators influence corporate value in the stock market.

Rahmat, R., & Fathimah, V. (2022): This study explores the effects of ROA, ROE, and NPM on stock prices in non-banking companies listed in the LQ45 index. The findings suggest that these profitability ratios have varying degrees of impact on stock price movements.

Rinati, I. (2022): This research analyzes the effects of NPM and ROE on stock prices in companies listed in the LQ45 index. The results show that both ratios significantly influence stock prices, which has implications for investment strategies.

Santy, V. A. D. (2017): This paper investigates the impact of ROA, ROE, and EPS on the stock prices of PT Garuda Indonesia Tbk. The study reveals that these financial metrics significantly affect stock prices, reflecting the company's financial performance.

Wahasusmiah, R., & Badaria (2020): The study assesses the impact of profitability on stock prices in the food and beverage subsector during the COVID-19 pandemic. The results indicate that profitability ratios significantly influence stock prices, highlighting the pandemic's effects on financial performance.

Hypothesis

Return on Asset (ROA) is one of the leading indicators used to measure the company's ability to generate profits from its total assets. This ratio provides an overview of how management effectively uses company assets to create profits. In the context of companies listed in the LQ45 Index, ROA is one of the important considerations for investors in assessing the company's financial health and its potential to provide profitable returns. Several previous studies have shown that ROA positively and significantly influences stock prices. For example, research by Santy (2017) and Rahmat & Fatimah (2022) shows a positive correlation between ROA and the company's stock price. This means that the higher the ROA of a company, the more likely the company's share price will increase because ROA reflects management efficiency in managing assets to generate profits. However, some studies show the opposite result. Kurniati & Pratama (2022) found that ROA has no significant effect on stock prices, which indicates that other factors may be more dominant in determining stock prices. Nevertheless, this study hypothesizes that ROA is expected to have a positive and significant effect on the stock price of LQ45 Index companies. This hypothesis is based on the assumption that a high ROA indicates good company performance, thus attracting investors to buy the company's shares, which drives the stock price.

H_1: *Return on Asset (ROA) positively and significantly affects the Stock Price of LQ45 Index Companies.*

Return on Equity (ROE) is a ratio used to measure the company's ability to generate net income by utilizing its equity. Investors view this ratio as crucial for determining how healthy management uses shareholder capital to generate profits. In the context of companies listed on the LQ45 Index, ROE is a critical indicator influencing investment decisions. Several studies have shown that ROE positively and significantly affects the company's share price. Rinati (2022), in her research, found that ROE has a significant influence on stock prices, which indicates that an increase in ROE can push up stock prices because it reflects strong company performance. However, the findings of studies by Prabowo (2020) and Kurniati & Pratama (2022) show that ROE only occasionally significantly impacts stock prices. These results suggest that other factors besides ROE, may play a more significant role in determining stock prices. Nevertheless, in this study, the hypothesis proposed is that ROE is expected to positively and significantly affect the stock price of LQ45 Index companies. This hypothesis is based on the premise that a high ROE reflects the company's solid performance in utilizing equity to generate profits, thus increasing the attractiveness of the company's shares in the eyes of investors.

H_2: *Return on Equity (ROE positively and significantly affects the Stock Price of LQ45 Index Companies.*

Net Profit Margin (NPM) is a ratio that shows the percentage of net profit the company earns from total sales. This ratio provides an overview of how efficiently the company manages its operating costs to generate net profit. In the context of companies listed on the LQ45 Index, NPM is a vital indicator investor should consider because this ratio reflects the company's operational efficiency and profitability. Research by Jamilah (2021) found that NPM has a positive and significant effect on stock price, which means that the higher the NPM of a company, the more likely its stock price will

increase. However, some studies show different results. Furniawan (2021) found that NPM negatively affects stock price, suggesting that other factors, such as market expectations or macroeconomic conditions, may play a more significant role in determining stock price than NPM. Based on these mixed research results, this study hypothesizes that NPM is expected to have a positive and significant effect on the stock price of LQ45 Index companies. This hypothesis assumes that companies with high NPM are considered more efficient and capable of generating greater profits, thus attracting investor interest and driving up stock prices.

***H_3**: Net Profit Margin (NPM) positively and significantly affects the Stock Price of LQ45 Index Companies.*

Earnings per Share (EPS) is a ratio that shows the net income generated per share outstanding. Investors often use this ratio to assess a company's profitability and potential return on investment. In the context of companies listed on the LQ45 Index, EPS is one of the critical indicators that can influence investment decisions. Research by Wahasusmiah & Badaria (2020) and Dwi Pangestu & Yahya (2022) found that EPS positively and significantly affects stock prices. These results indicate that companies with high EPS tend to have higher stock prices because investors believe that the company can generate greater profits per share. However, not all studies show consistent results. Kurniati & Pratama (2022) found that EPS has no significant influence on stock prices, which suggests that investors may consider other factors, such as growth prospects or overall market conditions, in determining stock prices. Nonetheless, this study hypothesizes that EPS is expected to have a positive and significant effect on the stock price of LQ45 Index companies. This hypothesis assumes that high EPS reflects strong financial performance, thereby increasing the attractiveness of the company's shares to investors.

***H_4**: Earning per Share (EPS) positively and significantly affects the Stock Price of LQ45 Index Companies.*

Research Design and Methodology

According to the type and analysis, this type of research is quantitative research. The quantitative method considers that science is characterized by empirical research, and phenomena can be reduced using empirical indicators representing the truth (Firmansyah et al., 2021). The type of data used in this study is secondary data from the 2019-2021 financial statements of companies incorporated in the LQ45 index. The sample selection method used in this study is the purposive sampling method. Purposive sampling is a non-random sampling method where the researcher ensures the quotation of illustrations by determining a unique identity that matches the research objectives so that it is expected to respond to the research case (Lenaini, 2021). Ten issuers meet the criteria from 45 issuers listed in the LQ45 index during the 2019-2021 period, so the total sample is 30 issuers. The authors used data collection techniques to obtain the required information results, namely Library Research and Documentation Research. The variables of this study are independent variables consisting of Return on Asset (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Earning per Share (EPS), and the dependent variable, namely stock prices. The data analysis technique used in this study is Multiple Linear Regression with the equation model $Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \epsilon$, with hypothesis testing including t-test (partial test) and coefficient of determination (R2).

Findings and Discussion

Findings

Return on Assets (ROA) has a minimum value of 1.43 and a maximum value of 13.19, with an average of 5.7493. This shows that the companies studied have varying levels of return on assets, with the average company generating profits of 5.7493 percent of its total assets. The standard deviation of ROA of 2.86296 indicates the variation or spread of data from the average, which

indicates the difference in performance between companies in utilizing their assets to generate profits.

Return on Equity (ROE) shows a minimum value of 1.43 and a maximum value of 20.12, with an average of 10.5679. This average value reflects the company's ability to generate net income from its equity, where, on average, the company managed to generate a profit of 10.5679 percent of its total equity. ROE's standard deviation, which reaches 5.37855, shows a significant variation in equity performance between companies.

Net Profit Margin (NPM) has a minimum value of 1.44 and a maximum value of 39.33, with an average value of 10.5977. This average indicates that the company is able to generate a net profit of 10.5977 percent of its total sales on average. The standard deviation of NPM of 8.59016 indicates a relatively large level of fluctuation or spread of data, which reflects differences in operational efficiency between companies.

Earning Per Share (EPS) shows a relatively extreme minimum value of -234.31 and a maximum value of 2463.52, with an average of 216.8278. A negative EPS value indicates that companies experience losses per share, while a positive average EPS value indicates that the companies studied were able to generate earnings per share. The high standard deviation of EPS, amounting to 600.81825, indicates a significant difference in profitability and performance per share between companies.

The share prices studied show a minimum value of 600.00 and a maximum value of 26600.00, with an average share price of 6511.1667. This average reflects that most of the shares of the companies studied are traded within this price range. The standard deviation of stock prices, which reached 7403.66122, indicates a high level of variation in stock prices, reflecting significant differences in market valuation between the companies that were the object of this study.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	30	1.43	13.19	5.7493	2.86296
X2	30	1.34	20.12	10.5679	5.37855
X3	30	1.44	39.33	10.5977	8.59016
X4	30	-234.31	2463.52	216.8278	600.81825
Y	30	600.00	26600.00	6511.1667	7403.66122
Valid N (listwise)	30				

***Source**: source should be written in italic text with font size 8*

Multiple linear regression statistical tests are said to be a good model if the model meets the assumptions of data normality and is free from classical statistical assumptions, both autocorrelation, heteroscedasticity, and multicollinearity (Rinati, 2022). The normality test aims to test whether or not confounding or residual variables have a normal distribution in the regression model in the regression model (Ghozali, 2011).

Table 2. Normality Test (One-Sample Kolmogorov-Smirnov Test)

		Unstandardized Residual
N		30
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	4121.52131381
Most Extreme Differences	Absolute	.113
	Positive	.106
	Negative	-.113
Test Statistic		.113
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Table 2 shows that the significance level is 0.200, above 0.05. Thus, the residual value is usually distributed so that the research model is declared to have met the normality assumption. A good regression model should not correlate with the independent variables (Ghozali, 2013: 105).

Table 3. Multicollinearity Test (Coefficients[a])

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1	.306	3.272
	X2	.353	2.834
	X3	.800	1.251
	X4	.819	1.221

a. Dependent Variable: Y

Table 3 shows that the ROA, ROE, NPM, and EPS variables have a tolerance value above 0.1 and VIF is smaller than 10. This means there are no multicollinearity symptoms in the regression equation model so that the data can be used in this study.

Table 4. Autocorrelation Test (Model Summary[b])

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.831[a]	.690	.641	4439.01431	.765

a. Predictors: (Constant), X4, X3, X2, X1
b. Dependent Variable: Y

From Table 4, it turns out that the Durbin-Watson coefficient is 0.765, which is where the DW value is between -2 < DW < +2 (-2 < 0.765 < +2). Thus, it can be concluded that in the regression between the variables Return on Assets (ROA), Return on Equity (ROE), Net profit margin (NPM), and Earning per Share (EPS) on Stock Price, there is no autocorrelation.

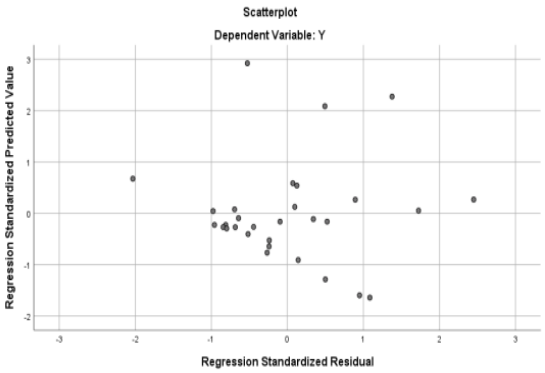

Figure 1. Heteroscedasticity Test
***Source**: Data processed, 2023*

Based on Figure 1, the scatterplot graph shows that the data is spread over the Y-axis and does not form a clear pattern in its distribution. This shows that there is no heteroskedasticity in the regression model, so the regression model is appropriate for predicting Stock Prices with variables that influence Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Earnings per share (EPS).

Table 5. Regression Equation Model (Coefficients[a])

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5924.358	2049.666		2.890	.008
	X1	1143.411	520.828	.442	2.195	.038
	X2	-947.174	257.987	-.688	-3.671	.001
	X3	223.514	107.317	.259	2.083	.048
	X4	7.628	1.516	.619	5.032	.000

a. Dependent Variable: Y

Based on the table 5, the regression equation formed in this regression test is:

$$Y = 5924.358 + 1143.411\ X1 - 947.174\ X2 + 223.514\ X3 + 7.628\ X4$$

The constant value is 5924.358. This indicates that if the independent variables' Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and earning per share (EPS) are zero (0), then the value of the dependent variable (Stock Price) is 5924.358 units. The Return on Assets (ROA) regression coefficient (b1) is 1143.411 and has a positive sign. This means that the value of variable Y will increase by 1143.411 if the value of variable X1 increases by one unit and the other independent variables are constant. The higher the Return on Assets (ROA), the higher the Share Price. The Return on Equity (ROE) regression coefficient (b2) is -947.174 and has a negative sign. This means that the value of variable Y will decrease by 947,174 if the value of variable X2 increases by one unit and the other independent variables are constant. The negative coefficient indicates an opposite relationship between the Return on Equity (ROE) and the Stock Price (Y) variables. The lower the Return on Equity (ROE), the higher the Stock Price. The Net Profit Margin (NPM) regression coefficient (b3) is 223.514 and has a positive sign. This means that the value of variable Y will increase by 223.514 if variable X3 increases by one unit and the other independent variables are constant. The positive coefficient indicates a unidirectional relationship between the Net Profit Margin (NPM) variable (X3) and the Stock Price variable (Y). The higher the Net Profit Margin (NPM), the higher the Stock Price. The Earning per Share (EPS) regression coefficient (b4) is 7.628 and has a positive sign. This means that the value of variable Y will increase by 7.628 if variable X4 increases by one unit and the other independent variables are constant. The positive coefficient indicates a unidirectional relationship between the Earning per share (EPS) variable and the Stock Price (Y) variable. The higher the Earnings per share (EPS), the higher the Stock Price.

Table 6. R2 Determination Test Results (Model Summary[b])

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.831[a]	.690	.641	4439.01431

a. Predictors: (Constant), X4, X3, X2, X1
b. Dependent Variable: Y

Table 6 explains the results of the regression analysis in the study, which focuses on the relationship between stock price (as the dependent variable) and four independent variables: Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Earnings per Share (EPS).

The R-value of 0.831 indicates a very strong relationship between the stock price and the four independent variables. In a statistical context, the R-value (correlation coefficient) measures the strength and direction of the linear relationship between these variables. R values above 0.8 fall into the category of a solid relationship, so it can be concluded that changes in the independent variables (ROA, ROE, NPM, and EPS) are significantly related to changes in stock prices.

Furthermore, the R squared (R^2) value of 0.690 or 69% indicates that 69% of the variation in stock prices can be explained by the ROA, ROE, NPM, and EPS variables. This means that the regression model is good enough to explain how the independent variables affect stock prices. However, other factors that were not considered in this study account for the remaining 31% of the variation in stock prices. These factors may involve macroeconomic conditions, market sentiment, or other company-specific variables not measured in this study.

Table 7. Partial Test Results (Coefficients[a])

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5924.358	2049.666		2.890	.008
	X1	1143.411	520.828	.442	2.195	.038
	X2	-947.174	257.987	-.688	-3.671	.001
	X3	223.514	107.317	.259	2.083	.048
	X4	7.628	1.516	.619	5.032	.000

a. Dependent Variable: Y

Through t-test statistics consisting of ROA, ROE, NPM, and EPS, its effect on Stock Price can be partially known.

Testing the First Hypothesis (H1)

Return on Assets (ROA) was tested to see if it influences stock prices. The test results show that the significance level of ROA is 0.038, smaller than the significance threshold of 0.05. This means that the effect of ROA on stock price is significant; in other words, there is a reasonably strong relationship between ROA and stock price that does not occur by chance. The coefficient value of b1 of +1143.411 indicates that the effect of ROA is positive on stock price, meaning that any increase in ROA will tend to increase stock price. Since this result is significant and cheerful, the first hypothesis (H1) is accepted, so it can be concluded that ROA does have a positive and significant effect on stock prices.

Second Hypothesis Testing (H2)

Return on Equity (ROE) was also tested to see its effect on stock prices. The test results show that the significance level of ROE is 0.001, which is also smaller than 0.05, so its effect is significant. However, the b2 coefficient value of -947.174 indicates that the effect of ROE on stock price is negative, which means that an increase in ROE correlates with a decrease in stock price. Since this effect is significant but harmful, the second hypothesis (H2) is rejected. This means that in this study, ROE has a negative and significant effect on stock price, which may reflect that an increase in ROE is not always accompanied by an increase in investor confidence in the value of the company's shares.

Third Hypothesis Testing (H3)

Net Profit Margin (NPM) was tested to evaluate its effect on stock price. The significance level of NPM is 0.048, which is smaller than 0.05, indicating that the effect of NPM on stock price is significant. The coefficient value b3 of +223.514 indicates that the effect of NPM is positive, meaning that an increase in NPM will tend to increase stock prices. Thus, the third hypothesis (H3) is accepted, meaning that NPM positively and significantly affects stock prices. This indicates that higher net income relative to sales can increase investor interest and stock prices.

Testing the Fourth Hypothesis (H4)

Earning per Share (EPS) was tested to see its effect on stock price. The test results show that the significance level of EPS is 0.000, much smaller than 0.05, so the effect is very significant. The coefficient value b4 of +7.628 indicates that the effect of EPS is positive on stock prices. This means that any increase in EPS, which reflects higher earnings per share, will tend to increase the stock price. Since this result is significant and cheerful, the fourth hypothesis (H4) is accepted. This indicates that EPS has a powerful and positive influence on stock price, reflecting that investors tend to value companies that can generate high earnings per share.

Discussion

Return on Assets (ROA) on Stock Price

The results of hypothesis testing show that the Return On Assets (ROA) variable has a positive and significant effect on stock prices. This can be caused by the higher the Return on Assets (ROA), the higher the stock price. This means that the company can use its assets effectively and efficiently to increase profit in a company with few assets. Investors will be interested because of the ability of a company to use its assets to generate profits; investors will think that if investors buy the share price in the company, investors will benefit, and the level of investment security in the company is very high. The ability of ROA to predict stock prices is very possible because the nature and pattern of ROA carried out by the company is very precise, so there are some assets that work or are used efficiently so that the share price obtained is maximized. Signal theory, developed by Ros in 1997, states that company executives with better information about their company will be encouraged to convey this information to potential investors so that the company's share price increases (Ismarinanda & Bawono, 2022). ROA is the rate of return or profit generated on asset management or company investment. This ratio measures the company's effectiveness because it considers the

use of assets and profitability in sales. For investors, ROA is used as an indicator when choosing companies to invest in the capital market.

Effect of Return on Equity (ROE) on Stock Price

The results of hypothesis testing show that the Return on Equity (ROE) variable has a negative and significant effect on stock prices. The higher the stock price, the worse the return on equity (ROE). This means the company cannot utilize its capital and generate maximum profit. The company must be more careful in using its capital so that the return on capital from its performance in generating profits will increase as expected. Inflation can be one of the factors that cause a decrease in the company's ROE. When ROE decreases, it is not in line with the decline in stock prices. The stock price increases when ROE decreases, which can be caused by the interest rate (BI Rate) decreasing from 2020 to 2021. If interest rates fall, investors will buy the company's shares and will increase the company's share price. This research rejects or is not by the signaling theory, which states that the higher the return or income obtained, the better the position of the company owner, and of course, the logical consequence is that the welfare of the shareholders of the company concerned will also increase so that the share price will also increase. The results of this study also show that the ROE variable is negative, meaning that the company cannot generate profits with its capital that can benefit shareholders.

Effect of Net Profit Margin (NPM) on Stock Price

The results of hypothesis testing show that the Net Profit Margin (NPM) variable has a positive and significant effect on stock prices. This can be caused by the higher the net profit margin (NPM), the higher the share price. When the company gets a high profit, the company's performance will be more productive. It will increase investor confidence in investing in the company. It is also considered that the company's ability to get high profits is better because one of the assessments of investors in making stock purchase decisions is the high profit generated by a company, so the number of investors affecting stock prices is increasing. Cashmere (2015: 197) "Net Profit Margin (NPM) is the relationship between net profit after tax and sales, indicating the ability of management to run the company to be successful enough to recover control over the cost of goods or services, operating expenses, depreciation, loan interest, and taxes." This ratio measures the company's ability to generate its net income against the total sales achieved by the company (Prabowo, 2020). Signal Theory explains that providing information is a significant indicator for companies to their potential investors; in this study, the increase in the company's net profit margin can be one of the decisions in investing or buying shares of a company because the results of this study reveal that when the company gets high profits, the company's performance will be more productive.

Effect of Earning per Share (EPS) on Stock Price

The results of hypothesis testing show that the Earning per Share (EPS) variable has a positive and significant effect on stock prices. This can be caused by the higher the Earnings per Share (EPS), the higher the stock price. A high EPS or profit reflects the results or income that shareholders will receive for each share they own. Investors need considerations that are used before investors decide to invest. In theory, it is said that the EPS of a large company makes investors interested in investing in the company, especially in food and beverage companies where the average profit generated is relatively high so that when investing in a company, investors will look at the company's EPS because EPS reflects the level of profit generated by the company. A large EPS indicates the company's remarkable ability to generate net profit from each share. An increase in EPS indicates that the company has succeeded in increasing investor prosperity. Signal theory explains why companies are urged to provide financial statement information to external parties voluntarily. The company's urge to provide information is because there is information asymmetry between the company and outsiders, and the company knows more about the company and its prospects than outsiders (investors, creditors).

Conclusion

The conclusion of this study shows that several financial variables analyzed significantly influence the stock prices of companies listed in the LQ45 Index. Return on Assets (ROA) and Earnings per Share (EPS) are proven to have a positive and significant influence on stock prices, which indicates that the higher the ROA and EPS, the more likely the stock price increases. This shows that companies that effectively manage assets and generate high earnings per share are more attractive to investors. On the other hand, Return on Equity (ROE) was found to have a negative and significant effect on stock price, which indicates that an increase in stock price is not always in line with an increase in ROE, especially under certain conditions such as inflation and falling interest rates. Net Profit Margin (NPM) was also found to have a positive and significant influence on stock prices, which indicates that companies with high net profit margins tend to have higher stock prices.

This research contributes to developing financial management science and practice, particularly in understanding the factors influencing stock prices in the capital market. This study confirms the importance of profitability variables such as ROA, NPM, and EPS in attracting investor interest. It shows that the financial signals companies provide can influence investment decisions in the stock market. Practically, the results of this study can be used by company managers to manage financial performance to increase the value of company shares and by investors as a guide in making more informed and appropriate investment decisions.

However, this study has several limitations, including data coverage, which is limited to companies listed on the LQ45 Index and has a relatively short period. In addition, this study does not consider external factors, such as macroeconomic conditions, that may affect stock prices. Therefore, it is recommended that future research expand the scope of analysis by including external variables and extending the research period to gain a more comprehensive understanding of the dynamics of stock prices. Future research could also explore industry sector differences in stock price responses to these financial variables, which could provide further insights for investors and financial practitioners.

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