The Effect of Return on Equity (ROE) and Earning Per Share (EPS) on The Stock Price of PT Unilever Indonesia

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ABSTRACT

The purpose of this study was to determine the effect of Return on Equity (ROE) and Earning Per Share (EPS) on stock prices at PT Unilever Indonesia Tbk for the period 2012-2022. The sample in this study is the financial data of PT Unilever Indonesia Tbk for the period 2012 to 2022 totaling 44 data. The analysis technique used is multiple linear regression analysis. The results showed that Return on Equity (ROE) and Earning Per Share (EPS) had an effect on the share price of PT Unilever Indonesia Tbk for the period 2012-2022. The results of hypothesis testing state that Return on Equity (ROE), and Earning Per Share (EPS) together (simultaneously) have a significant influence on stock prices at PT Unilever Indonesia Tbk for the period 2012-2022. Simultaneously, ROE and EPS affect the stock price of PT Unilever Indonesia Tbk by 0.518 or 51.80%.

Keywords: Return on Equity (ROE), Earning Per Share (EPS), Stock Price

INTRODUCTION

Investment is the commitment of a number of funds or other resources made at this time, with the aim of obtaining a number of benefits in the future (Tandelilin, 2010). Investment in stocks is considered to have a greater level of risk than other investments, such as bonds, deposits, and savings. In making a decision to make an investment, two things need to be considered, namely return and investment risk. In securities that have the same risk, investors tend to choose high returns. The amount of return value depends on the investor's ability to cope with risk. The greater the risk taken, the greater the expected return that will be received. This means that investment in stocks promises large profits as well as risks

This research is important because investors need to have a number of information related to stock price dynamics in order to make decisions about company shares that are worth choosing to accurately value stocks. Accurate stock valuation can minimize risk while helping investors get reasonable profits, considering that stock investment in the capital market is a type of investment that is high risk even though it promises relatively large profits. Before investing their funds, investors need to analyze the company's ability to generate profits. Investors will only invest their funds in companies that have a good reputation. Companies that have a good reputation are companies that are able to provide constant dividends to shareholders. The more profit the company receives, the higher the dividends paid by the company to shareholders (Devi and Suardikha, 2014).

The share price is the price that jarises as a result of the movement of supply and demand that arises in the securities market for the relevant shares. For the company itself, shares are ownership rights to the company's assets. The number of shares means the percentage value of ownership of the company's total assets. And for the company, the stock price can be the starting point of the company's value.

The definition of a stock price is the price of a stock that occurs on the stock exchange market at a certain time determined by market participants and determined by the relevant supply and demand in the capital market (Jogiyanto, 2017).

This share price is influenced by both internal and external factors of the company. Internal factors are factors related to the level of company performance that can be controlled by company management, such as the amount of dividends distributed, company management performance, future prospects, debt and equity ratios. Second, external factors are things beyond the ability of company management to control, such as the emergence of political turmoil, changes in exchange rates, high inflation rates, deposit interest rates and others (Patar, Darminto, Saifi, 2014).

The cosmetics and household sector is a needs-based sector. At this time the Indonesian people are aware of the need for a healthy and well-groomed life, so that there is an increasing public demand for cosmetics and household products which results in the emergence of competition between the cosmetics sector and household needs. Therefore, every company in Indonesia is required to be able to compete with many innovations, promotions and a good marketing system as well as optimal product quality to attract consumers. One of the cosmetics and household appliances sector companies listed on the Indonesia Stock Exchange and incorporated in the LQ-45 index, namely PT Unilever Indonesia Tbk. Is one of the leading companies for Home and Personal care products in Indonesia. Almost all Indonesian people use products from this company. This can be seen from the growth in sales results obtained by the company from year to year always increases, so it is expected to provide benefits for investors.

The success achieved by PT. Unilever Indonesia Tbk. During this time is inseparable from public trust in these products, so the company makes new innovations to meet the needs of the community. PT Unilever Indonesia Tbk. Not only innovates products but also carries out sustainability activities as a driving force in every activity. So every consumer chooses one of Unilever's products, it means they improve the quality of their lives, their environment and the world we live in together.

Shares in the household sector are one of the stocks that investors are interested in. Investors believe that stocks in this sector will always grow, so that it can affect the share price which also grows. In addition, the consumer goods sector is a category of primary needs that must be hunted by the public despite price increases or experiencing a financial crisis. This condition makes competition tighter, so company managers are competing to find investors to invest their funds in these food and beverage companies. In determining stock purchases, most investors use financial ratio analysis, which is a tool used to help analyze a company's financial statements so that the strengths and weaknesses of a company can be known.

Return on Equity (ROE) is a profitability ratio that describes the company's ability to provide profits for ordinary shareholders (capital owners) by showing the percentage of net income available for shareholders' capital that the company has used. Return on Equity (ROE) is a comparison between an issuer's net income and its own capital (Common Equity). A high Return on Equity (ROE) reflects that the company is successful in generating profits from its own capital. An increase in Return on Equity (ROE) will help boost the company's selling value which has an impact on the share price (Van Horne and Wachowicz, 2012).

Earning per Share (EPS) is a market value ratio Earning Per Share (EPS) income per share is a form of profit given to shareholders from each sheet owned. Earning per Share (EPS) information is also very helpful for investors because it can describe the earning prospects (net income that is ready to be distributed to shareholders) of a company in the future. Therefore, the increase in Earning per Share (EPS) results in an increase in demand for shares which will make the share price go up (Fahmi, 2012).

Return On Equity (ROE) and Earning Per Share (EPS) are part of the financial ratios that are usually used by most investors. Analysis of these three ratios affects the share price on the stock exchange

market, because the greater the level of the company's ability to generate profits, the greater the investor's interest in investing.

Several studies on the effect of these three ratios on stock prices have been conducted and provide different and varied results. Research conducted by Juliana et al (2017) concluded that ROA has an effect on stock prices, but ROE has no effect on stock prices. Research conducted by Wijaya and Suarjaya et al (2017) concluded that ROE affects stock prices. Furthermore, Badruzaman's research (2017) shows that EPS significantly has a positive effect on stock prices.

REVIEW OF LITERATURE

The capital market is a means for companies to increase their needs and long term by selling shares or issuing bonds (Jogiyanto, 2017). The capital market functions as a means of productive fund allocation to move funds from lenders to borrowers. Productive fund allocation occurs if individuals who have excess funds can lend them to other more productive individuals who need funds. According to Tandelilin (2017) Companies that need funds can sell their securities in the capital market. The function of the capital market is to increase and connect the flow of long-term funds with its market criteria efficiently which will support the real growth of the economy as a whole.

Stock Price

Stock price is an indicator of company management. Success in generating profits will provide satisfaction for rational investors. A high enough share price will provide benefits, namely in the form of capital gains and a better image for the company, making it easier for management to obtain funds from outside the company. Stock price is the price of a stock that occurs on the stock exchange market at a certain time determined by market participants and determined by the demand and supply of the shares concerned in the capital market (Jogiyanto, 2017). Stock prices can change at any time. For example, when demand rises, the share price tends to rise. Conversely, if the supply is excessive, the stock price will tend to fall.

Return on Equity

ROE is also called return on equity. This ratio examines the extent to which a company uses its resources to provide a return on equity. ROE is also one of the profitability ratios used by investors to determine the company's ability to use for the company's operating activities with the aim of generating profits by utilizing its assets.

Earning Per Share

Earnings Per Share (EPS) is a tool to analyze the level of profitability of companies that use the concept of conventional earnings. EPS is a ratio that shows how much the company's profit is compared to the weighted average number of shares outstanding (Hendrata, 2018).

EPS or earnings per share is the level of net profit for each share that the company is able to achieve when carrying out its operations. Earnings per share or EPS is obtained from earnings available to common shareholders divided by the average number of shares.

One of the reasons investors buy shares is to get dividends, if the value of earnings per share is small, it is also unlikely that the company will pay dividends. So it can be said that investors will be more interested in stocks that have high earnings per share than stocks that have low earnings per share. Low earnings per share tends to make the stock price go down.

According to Kasmir (2015) Earning Per Share is a measure of the company's ability to generate profit

per share. The profit used is net profit after tax. If a company's Earning Per Share is high, the company's profit that will be distributed in the form of dividends to shareholders will be higher.

Based on the literature review, the hypotheses in this study are as follows.

Effect of Return on Equity (ROE) on Stock Price

According to Kasmir (2015) Return on Equity is a ratio to measure net profit after tax with own capital. This ratio shows the efficient use of own capital. The higher this ratio, the better. This means that the position of the company owner is getting stronger, and vice versa. According to Brigham and Houston (2017) the most important ratio is ROE, shareholders certainly want to get a high return on the capital they invest, and ROE shows the rate of return they get. In Putri's research (2018) it was found that ROE has an effect on stock prices. The higher the ROE, the higher the share price in the eyes of investors and potential investors, therefore it can result in an increase in share price.

The Effect of Earning Per Share (EPS) on Stock Price

According to Tandelilin (2017), EPS shows the amount of net profit that will be distributed to shareholders. so that it will attract investor interest in the company's shares concerned which will ultimately affect the share price. The higher the EPS value will make shareholders happy because the greater the profit available to shareholders and the possibility of an increase in the amount of dividends received by shareholders. Datu and Maredesa (2017) found that if investors consider the company's EPS to be good enough and will generate returns commensurate with the risks they will bear, the demand for the company's shares will increase, which means that the company's share price will also increase.

The theoretical framework that describes the influence of financing performance on profitability is as follows (Figure 1):
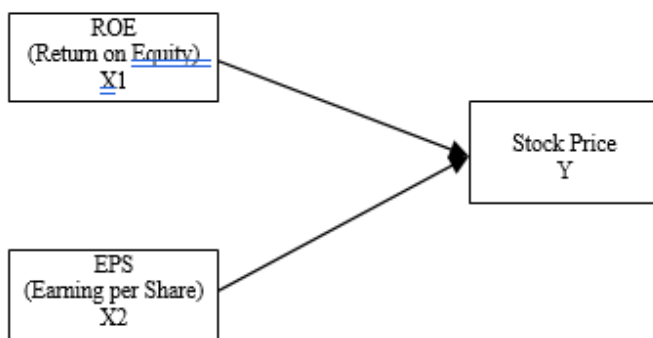

Fig.1: Research Model

RESEARCH METHODS

The research methods used are descriptive and associative research methods with quantitative approaches. The descriptive research approach according to Sugiyono is that descriptive research is research conducted to determine. The value of independent variables, either one or more variables (independent) without making comparisons, or connecting with other variables (Sugiyono, 2012).

The population used in this study is the financial statement data of PT Unilever Indonesia Tbk on the Indonesia Stock Exchange. the sample used is the financial data of PT Unilever Indonesia Tbk for the period quarter 1-2012 to quarter 4-2022. Sample determination will use purposive sampling method, namely the sample on the basis of the suitability of sample characteristics and sample selection criteria that have been determined. This study uses multiple linear regression analysis techniques and processing using SPSS software tools.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

ROE is a ratio calculation that shows the company's ability to generate net income using its own capital and generate net income available to owners or investors. ROE calculations can be used as a measure of the company's financial performance.

Descriptive statistics provide an explanation of the minimum value, maximum value, average value (mean), and standard deviation value of the independent variables and dependent variables. Based on the data above, it can be seen that ROE and EPS in 2012-2022 with descriptive statistics as follows:

Table 1. Descriptive Statistical Test Results

Descriptive Statistics					
	N	Min.	Max.	Mean	Std. Deviation
ROE	44	.19	1.45	.7535	.385
EPS	44	45	1194	410.52	298.06
Stock price	44	3690	48975	21455.68	15110.08
Valid N (listwise)	44				

Source: processed by researchers (2023)

Table 1 shows the results of data processing regarding descriptive statistics of research variables with a total of 44 data. Described measures of research variables include the amount of data (N), minimum value, maximum value, average value (mean) and standard deviations.

Based on the table above, the minimum Return on Equity is 0.19 and the maximum is 1.45 with an average of 0.7535 while the standard deviation is 0.385. The average value of ROE is greater than the standard deviation, indicating that the data is good. The EPS variable obtained a minimum value of 45 and a maximum of 1194 with an average of 410.52 while the standard deviation was 298.056. The average value of EPS is greater than the standard deviation.

The stock price variable obtained a minimum value of 3690 and a maximum of 48975 with an average of 21455.6818 while the standard deviation was 15110.08. The average value of stock prices is greater than the standard deviation.

Calculation Results with Multiple Regression Analysis

To determine the extent of the significance of the effect of ROE and EPS on the share price of PT Unilever Indonesia Tbk, statistical testing will be carried out on the regression line equation. Testing is done with the F test and t test.

Table 2. Results of Multiple Regression Analysis

Variable	Coefficien Regression	T_{count}	Sig.
Konstanta			
ROE	15566.056	2.282	.028

EPS	24.754	2.808	.008
F_{count}	27.271		.000[b]
R square	51.80		

Sources: processed by researchers (2023)

Based on the table above, t count of 2.282 is greater than t table (df = 44-2 =42) of 2.02 with a p-value of 0.028 smaller than 0.05; thus it can be concluded that partially the ROE variable affects the stock price.

Based on the table above, t count of 2.808 is greater than t table (df = 44-2 =42) of 2.02 with a p-value of 0.008 smaller than 0.05; thus it can be concluded that partially the EPS variable has an effect on stock prices.

The calculated F value of 27.271 is greater than the F table (df = 44-2-1 =41) of 3.23 p-value of 0.000 smaller than 0.05. thus it can be concluded that simultaneously the ROE and EPS variables affect the stock price at PT Unilever Indonesia Tbk for the period 2012-2022.

DISCUSSION

Effect of Return on Equity (ROE) on Stock Price

The research results above explain that the increase in return on equity will increase the stock price. The significant value of the return on equity variable is 0.028. This shows that the significant value of the t test of the return on equity variable is smaller than 0.05. The result of this test is that return on equity has a significant effect on the share price of PT Unilever Indonesia Tbk for the 2012-2022 period.

ROE is a financial performance indicator that shows how efficient the company is in generating profits for shareholders using the capital they invest. When ROE is high, this indicates that the company is able to generate greater profits for every dollar of capital owned by shareholders. Investors tend to be more attracted to companies with a strong ROE as this may indicate a higher potential return on their investment. This can boost demand for the company's shares, which in turn can lead to an increase in the share price.

According to Riadi (2011), there are 2 factors that affect return on equity (ROE), namely internal factors and external factors. External factors are factors that come from outside and cannot be controlled by the company. Return on equity or what is often called return on equity is often translated as own share profitability (share capital profitability). Investors who will buy shares will be interested in return on equity or the share of total profitability that can be allocated to shareholders. Therefore, the higher the ROE, the higher the share price.

This research contradicts the results of Putri's research (2017) which states that ROE has an effect on stock prices.

The Effect of Earning per Share on Stock Price

The results of multiple regression tests show that Earning per Share (EPS) has an influence on firm value. The hypothesis test results obtained sig value. 0,08. The significant value of earning per share is greater than the expected significance (0.05) indicating that the earning per share variable has an effect on the share price of PT Unilever Indonesia Tbk for the period 2012-2022.

Earnings Per Share (EPS) is one of the financial metrics that has a major effect on the stock price of a company. EPS measures the net income available for each share outstanding in the market. It gives an idea of how profitable a company is in generating profits for each of its shareholders. When EPS

increases, it indicates growth in earnings per share, which tends to increase investor interest in the company's stock. This can trigger an increase in demand for the stock, which in turn can push the stock price up.

Investors often compare a company's EPS to industry averages or similar rivals to assess relative performance. If a company's EPS is better than its competitors, this can be a positive factor that increases the stock price.

In addition, companies that are able to consistently increase their EPS are also likely to gain long-term investor confidence. This can result in a sustained upward trend in stock prices. Therefore, EPS is one of the main factors that affect stock prices, and companies often strive to increase it with growth strategies, cost control, and efficient financial management to maintain and increase the value of their shares in the market.

This study contradicts the results of research by Stice and Skousen (2013) and Marom (2017) which state that EPS affects stock prices.

Simultaneous Effect of ROE and EPS on Stock Price

The results of simultaneous testing of the ROE and EPS variables on stock prices prove that these two variables affect the value of the company at PT Unilever Indonesia Tbk for the period 2012-2022. This means that with the better ROE and EPS ratios, it will jointly affect the share price of PT Unilever Indonesia Tbk for the period 2012-2022.

Based on the results of hypothesis testing that has been carried out, it shows that simultaneously Return On Equity and Earning per Share have a significant effect on the stock price, indicated by the significant value of the F test (simultaneous test) of 0.000, which means less than the significance level of 0.05 or 5%, so it can be said that simultaneously Return On Equity and Earning per Share have a significant effect on stock prices with an Adjusted R square value of 0.518 or 51.80%, which means that the independent variables, namely ROE and EPS, can explain the variation in the dependent variable stock price by 51.80% while the remaining 48.2% is explained by other variables that are not included.

CONCLUSION

i.   The results of hypothesis testing state that Return on Equity (ROE) has a significant effect on the share price of PT Unilever Indonesia Tbk for the period 2012-2022.
ii. The results of hypothesis testing state that Earning Per Share (EPS) has a significant effect on the stock price of PT Unilever Indonesia Tbk for the period 2012-2022.
iii. The results of hypothesis testing state that Return on Equity (ROE), and Earning Per Share (EPS) together (simultaneously) have a significant influence on the share price of PT Unilever Indonesia Tbk for the period 2012-2022. This means that the higher the value of ROE, and EPS, the higher the share price. Conversely, the lower the value of ROE, and EPS will result in a low stock price. Simultaneously, ROE, and EPS affect the stock price by 0.518 or 51.80%.

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