

Evaluation of the Influence of Profitability and Financial Performance on Stock Price

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ABSTRACT

To achieve the goal of realizing transparency and accountability of financial information, every company that is to be published is required to submit annual financial reports to the Indonesia Stock Exchange and to investors. This study aims to determine the effect of financial performance variables on profitability and its impact on stock prices in the Property sector and companies Real Estate listed on the Malaysia Stock Exchange in 2010-2015. The sample used is secondary data from the Malaysian Stock Exchange. Samples were taken by method purposive sampling, and there are 5 companies that meet the sample selection criteria. Statistical tests were carried out using the panel data regression test random effect. The research results show that partially Current Ratio No significant effect on Return on Asset. However Total Asset Turnover and Debt Ratio positive and significant effect on Return on Asset. Simultaneously variable Current Ratio, Total Asset Turnover and Debt Ratio significant effect on Return on Asset. Return on Asset also does not have a significant impact on the share price.

Keywords : **Current Ratio, Total Asset Turnover, Debt Ratio, Return on Asset, Stock Price**

INTRODUCTION

The Indonesian capital market has experienced very rapid development from period to period, this is evidenced by the increasing number of shares traded and the increasing volume of stock trading. In line with these rapid developments, the need for relevant information in making investment decisions in the capital market is also increasing. The capital market is an indicator of a country's economic progress and supports the country's economy (Surbakti & Ahmar, 2019).

To carry out analysis and choose stocks, one must use a market approach, one of which is the fundamental approach. This approach is mainly shown to factors that are generally outside the capital market, which can influence future stock prices. Matters included in the fundamental approach include economic and industrial analysis, valuation

of individual companies either by using research variables such as dividends or earnings (income) (Huda, 2022).

In connection with the phenomena that are occurring in manufacturing companies today, it is very important for company management to carry out some financial analysis in order to control the company's performance (Mayangsari, 2020). Also in order to be able to predict how strong the company can survive in difficult situations. On the other hand, investors can also see developments or some weaknesses that are happening at the moment, so they can decide whether to continue investing or not.

Financial report analysis is made to assess risks and opportunities in the future. The results of an analysis of a company's financial statements can be in the form of a conclusion that the company is in good condition, growing rapidly, or otherwise unhealthy (Mustika, et, al., 2022). So that this can become a basis for creditors and investors in making decisions related to investment policies or other strategic policies.

Financial performance is a description of the financial condition of a company which is analyzed using financial analysis tools, so that the good and bad financial condition of a company can be known which reflects work performance in a certain period (Munawar & Maulana, 2020). This is very important so that resources can be used optimally in dealing with environmental changes. Financial performance appraisal is one way that can be done by management in order to fulfill its obligations to funders and also to achieve the goals set by the company.

Current Ratio (CR) is commonly used to measure a company's ability to meet obligations. The lower the value of CR, it will indicate the inability of the company to fulfill its short-term obligations, so that it can affect the level of company profitability, where companies that are unable to fulfill their obligations will be subject to additional burdens on their obligations.

Total Asset Turnover (TATO) is the ratio used to measure effectiveness of the use of company assets in generating revenue from sales. The more efficient a company is in using its assets to earn income, the better the profit it will receive, but conversely, the company's inefficiency in using its assets will only add to the company's burden in the form of non-profitable investments.

Debt Value Ratio (DR) is a ratio that measures the level of use of debt to total assets owned by the company. The higher the percentage yield, the greater the financial risk for

creditors and shareholders tends to be. The debt to equity ratio (DER) describes the ratio of debt to equity in the company's funding and shows the ability of the company's own capital to fulfill all of its obligations. The lower this ratio, the higher the level of corporate funding provided by shareholders.

This study will analyze the effect Current Ratio (CR), Total Asset Turnover (TATO), Debt Ratio (DR) to profitability (ROA) either simultaneously or partially, and its impact on firm value. This analysis can be used as a material consideration for investors in making investment decisions, and can provide information for companies to pay more attention to the condition of the company to the amount of profitability each year.

The advantages of investing in stocks are: dividends, namely the portion of the company's profits that will be distributed to shareholders, capital gain, namely the profit from the sale/purchase of shares, in the form of the difference between the selling price which is higher than the buying value of the shares. Company shares, such as land or similar valuable assets, will increase in value over time and in line with the development or performance of the company. Shares can be guaranteed to the bank as collateral to obtain credit (Wulandari 2021).

The price of shares on the stock exchange is determined by market forces, in the sense that it depends on the supply and demand for the shares themselves. The movement of the price of a stock in the short term cannot be predicted with certainty. The more people who want to buy shares, the price of these shares tends to move up. Conversely, the more people who want to sell, the stock price tends to move down (Aspriyadi 2020). Possible losses from share ownership include:, Capital loss namely the loss from the sale/purchase of shares in the form of the difference between the selling price which is lower than the buying value of the shares.

THEORETICAL BASIS

Financial management

According to (Latief, 2019) as a whole the science of financial management has existed from a descriptive study of the company's operational management approach towards the theoretical conception of the corporation in a dynamic environment and under conditions full of uncertainty. The science of Financial Management continues to develop

until it becomes a science that cannot be separated from the decision-making process of almost all companies (Setiadi, 2021).

The science of financial management continues to grow and develop with the emergence of new innovations in financing such as leasing and external company growth through conglomeration, mergers and acquisitions (Arief, 2019).

Financial statements

According to (Ayuningrum, et, al., 2021), financial reports are accountability reports manager or the management of the company for the management of the company entrusted to him by parties outside the company, namely company owners (shareholders), government (tax agencies), creditors (banks or financial institutions) and other interested parties.

The financial report is to provide information concerning the financial position, performance and changes in the financial position of a company that is useful for a large number of users in making economic decisions. This information is useful for most report users in order to make economic decisions and demonstrate management's responsibility for the users of the resources entrusted to them (Sahrir & Sunusi, 2022).

Financial Statement Analysis

According to (Kuncoro & Sudiyatno, 2022), the purpose of financial statement analysis is to assist users in predicting the future by comparing, evaluating and analyzing financial trends. While the analysis of financial statements is done to simplify the data so that it can be more understandable or more meaningful.

ROA is one of the profitability ratios used to measure a company's effectiveness in generating profits by utilizing its total assets. ROA is the ratio between profit after tax or net income after tax (NIAT) to total assets.

Current Ratio is one of the liquidity ratios, namely the ratio that aims to measure a company's ability to meet its short-term obligations. The higher the CR of a company means the smaller the risk of failure of the company in fulfilling its short term obligations.

Total Assets Turnover is the ratio between sales (net) to total assets used by the company's operations. This ratio shows the ability of the company's assets to generate total net sales. The higher the ratio of sales to total assets shows the more effective the company is in using its assets to generate total net sales.

Debt Ratio (DR) is a ratio that measures the level of use of debt to total assets owned by the company. The higher the percentage yield, the greater the financial risk for creditors and shareholders tends to be.

Stock Price

(Maghfiroh, et, al., 2019) states that stocks have characteristics, including, dividends paid as long as the company makes a profit, has voting rights at the General Meeting Holder Shares (GMS), have the final right to share the company's wealth if the company is liquidated and after all the company's obligations have been paid, have limited liability for the claims of other parties in the proportion of their shares, the right to transfer ownership the stock.

The share price is a sign of the participation or ownership of a person or entity in a company, a share is a piece of paper which explains that the owner of the paper is the owner (regardless of the portion/amount) of a company that issues the paper (shares) (Arapi & Dambe, 2019). In the context of a corporation, shares represent units of ownership or equity in the company. When a company issues shares, it divides its ownership into smaller, tradable units. Shareholders are individuals or entities that own these units, and they are often referred to as "shareholders" or "stockholders." Each share entitles the shareholder to certain rights, such as voting rights in corporate decisions, a share of profits in the form of dividends (if the company pays dividends), and the right to receive information about the company's activities.

METHOD

The method used in this study is a quantitative method where the data used for analyzing it is numerical in nature, by taking from case studies on companies listed on the Malaysia Stock Exchange.

In each study, the population chosen is closely related to the one being studied. Based on this understanding, the population in this study is property and real estate companies listed on the Malaysia Stock Exchange.

The determination of the sample in this study is based technique purposive sampling Where Sample The sample taken has certain criteria taken by the researcher, the sample is the financial statements of 5 property and real estate companies listed on the Malaysia Stock Exchange. The data in this study is secondary date which is limited

to annual reports on property and real estate companies listed on the Malaysia Stock Exchange.

RESULT

F-Test (Simultaneous Test)

Probability value (F-statistic) of $0.000000 < 0.05$ significance level so that H_0 accepted and H_1 rejected, it means variable X_1 , X_2 , and X_3 significant effect on Y simultaneously. Then the calculated F-value (F-statistics) of 107.8656. The F-table value with $\alpha=5\%$ (0.05) and $df (k-1) = (3-1) = 2$ and $df2 (n-k) = 30-3 = 27$ shows the number 3.35. Thus the F-count value ($107.8656 > 3.35$), so H_0 rejected and H_1 accepted variable means that Current Ratio (X_1), Total Asset Turnover (X_2), and Debt Ratio (X_3) influential significant to Return on Asset (Y) dry simultan.

Regression model equation on Variable X_1 , X_2 , and X_3 against Y is as follows:

$$Y = -0.013818 - 0.005771X_1 - 0.544003X_2 + 0.345212X_3$$

1. α (constant) of -0.013818 means that if there is no variable X_1 , X_2 , and X_3 then the magnitude of the value of Y (LONG) is -0.013818 assuming other factors are constant.
2. $b_1 = 0.005771$. X regression coefficient₁ of 0.005771. This shows the inflation coefficient's own direction of positive relationship of 0.005771.
3. $b_2 = 0.544003$. X regression coefficient₂ of 0.544003. it shows that coefficient Interest rate down the direction of negative relationship of 0.544003.
4. $b_3 = 0.345212$. X regression coefficient₃ of 0.345212. It shows that coefficient The Rupiah exchange rate has a positive relationship direction of 0.345212.

Coefficient of Determination

The determinant coefficient in panel data regression is used to find out how much percentage the simultaneous effect of the independent variable on the dependent variable. Based on the results of the analysis, the magnitude of the numbers R Squared (R^2) Current Ratio, Total Asset Turnover, and Debt Ratio, to Return on Asset is 0.9256290. This shows that the percentage of the effect of the independent variable on the dependent variable is 92.6%. This means that the ability of the independent variables to explain the dependent variation is 92.6%, the remaining 7.4% is explained by other variables outside the variables studied. While the numbers R Squared variable Return on Asset (Y) against

Stock Price (Z) is 0.001728. This shows that the percentage of the effect of the independent variable on the dependent variable is 0.2%. While the remaining 99.8% is influenced by other factors outside the regression model.

Influence Current Ratio against Return on Asset

Based on the results analysis variable Current Ratio has a coefficient of -0.008558 with a significance value of 0.3440 which is greater than 0.05. This means that the first hypothesis in this study was rejected, thus Current Ratio no significant effect on Return on Asset.

Based on the results of research simultaneously it is known that CR, TATO, DER, DR, Sales Growth and Size Company have a significant effect on the profitability of manufacturing companies listed on the Indonesia Stock Exchange for the 2008-2011 period. However, partially only TATO, DR and company size have an effect on company profitability, while CR, DER and sales growth have no significant effect on profitability.

The results show that the influence of the independent variable on the dependent variable is small, namely only 30.10% and the rest as big 69.90% is influenced by other factors that are not included in the regression model.

Influence Total Asset Turnover against Return on Asset

Based on the results analysis variable Total Asset Turnover has a coefficient of 0.804420 with a significance value as big 0.0002 which is smaller than 0.05. This means that the second hypothesis in this study is accepted, Total Asset Turnover significant effect on Return on Asset.

Based on the results of testing the hypothesis shows that in Partial the TATO variable has a positive but not significant effect on the ROA variable. Based on the results of hypothesis testing 2 shows that in Partial DER variable has a significant effect negative on the ROA variable. Based on the results of the House of Representatives has a significant effect negative on the ROA variable. Based on the results of hypothesis testing 4 shows that in Partial the Sales Growth variable has a significant positive effect on the ROA variable. Based on the results of hypothesis testing 5 shows that partially the CR variable has a significant effect negative to variable Length.

Influence Debt Ratio toward Return on Asset

Based on the results analysis the Debt Ratio variable has a coefficient of -2.531919 with a significance value of 0.8298 which is greater than 0.05. This means that the third

hypothesis in this study was rejected, the debt ratio has no significant positive effect on Return on Asset.

Influence Current Ratio, Total Assets turn over, Debt Ratio, simultaneously against Return on Asset

Based on the results of the analysis, the Prob value (F-statistic) was 107.8656, which was greater than 0.05. This means that the fourth hypothesis in this study is rejected, simultaneously the variables Current Ratio (X1), Total Asset Turnover (X2) and Debt Ratio (X3) have no significant effect on Return on Asset. Based on the test of the coefficient of determination, the magnitude of the numbers R Squared is 0.925629. This shows that the percentage of the effect of the independent variable on the dependent variable is 92.6%, while the remaining 7.4% is influenced by other factors outside the regression model. From these results it can be concluded that there is a significant effect simultaneously between the independent variables on the dependent variable.

Variable Impact Return on Asset to Stock Price

Based on the results of variable analysis Return on Asset has a coefficient of -2.531919 with a significance value as big 0.8298 which is greater than 0.05. This means that the fifth hypothesis in this study was rejected, Return on Asset no significant effect on the stock price.

CONCLUSION

The results of the analysis show that *Current Ratio* (X₁), *Total Asset Turnover* (X₂), and *Debt Ratio* (X₃) simultaneously have no significant effect on *Return on Asset* (Y). Based on the test of the coefficient of determination, the magnitude of the numbers *R Squared* is 0.925629. This shows that the percentage of the effect of the independent variable on the dependent variable is 92.6%, percent, while the remaining 7.4% is influenced by other factors outside the regression model.

The results of the analysis indicate that the three independent variables, Current Ratio (X1), Total Asset Turnover (X2), and Debt Ratio (X3), when considered together (simultaneously), do not have a significant effect on the dependent variable, Return on Asset (Y). Here's a breakdown of the findings:

1. Current Ratio (X1). The current ratio measures a company's short-term liquidity, indicating its ability to meet its current liabilities with its current assets. In this

study, it was found that when Current Ratio is considered alongside the other variables (X2 and X3), it does not have a statistically significant impact on Return on Asset (Y). This means that changes in the current ratio, while important for assessing liquidity risk, do not have a substantial influence on the company's overall Return on Asset.

2. Total Asset Turnover (X2). The total asset turnover ratio evaluates how efficiently a company utilizes its assets to generate revenue. The study shows that when Total Asset Turnover is analyzed along with the other variables (X1 and X3), it does not have a significant effect on Return on Asset (Y). This implies that changes in the company's asset turnover ratio do not strongly impact its Return on Asset.
3. Debt Ratio (X3). The debt ratio measures the proportion of a company's assets that are financed through debt. The research results demonstrate that when Debt Ratio is considered together with the other variables (X1 and X2), it does not have a statistically significant effect on Return on Asset (Y). This means that variations in the company's debt ratio do not have a significant influence on its overall Return on Asset.

The non-significance of the variables may also suggest that other factors, such as management decisions, industry dynamics, economic conditions, or other financial metrics not included in the analysis, could have a more substantial effect on the company's Return on Asset. Further research and analysis would be required to gain a more comprehensive understanding of the factors affecting the company's financial performance.

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