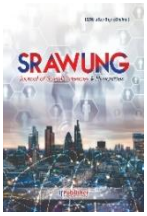

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The Impact of Return on Profit, Company Value and Company Size on Stock Prices in Manufacturing Companies Listed on IDX

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ABSTRACT

This study aims to examine and analyze the impact of earnings returns, firm value, and firm size on stock prices in manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The populations in this study are manufacturing companies listed on the Indonesia Stock Exchange according to the publication of the Indonesia Stock Exchange (IDX). The companies that are the sample of this research are manufacturing companies in the various industrial sectors that have been listed on the IDX since the data for the period in this study is 2018-2020, 54 manufacturing companies in the various industries were selected. The results showed that the return on earnings had a positive effect on stock prices, while firm value and firm size had no effect on stock prices in manufacturing companies in the various industrial sectors.

Keywords: *Company Size, Company Value, Return of Profit, Stock Price*

INTRODUCTION

The stock prices are in demand because of fundamental analysis with the issuer's measurement of the company. From the issuer companies, investors will see their profitability, sales, growth, and cash flows. Fundamental analysis determines the fair value of the company. For investors who are optimistic about the company, it is seen as undervalued since the company is consistent with good fundamental analysis. There are also investors who are pessimistic in assessing companies with overvalued stock prices. This is called the realm of fundamental analysis, which helps determine how good a company is for buying or selling shares.

Stock price movements occur when the seller is dominant, causing the price to move down, and when the buyer is dominant, causing the price to move up. Fundamental perceptions cause stock movements, while the three main stock movements are uptrend, balanced, and downtrend.

Every company strives to run its business well. Good conditions can be achieved when the company generates profits and conducts business activities according to its vision, mission, and goals. The main purpose of a company listed on the IDX is to generate profits and increase the prosperity of owners or shareholders by increasing the company's value (Chasanah, 2018). One of the main indicators reflecting the performance of the Indonesian capital market during bullish or bearish periods is the Composite Stock Price Index (JCI). The JCI records stock price movements of all securities listed on the Indonesia Stock Exchange. Therefore, JCI movements are a key concern for investors, as they influence investor decisions on whether to buy, hold, or sell shares.

In the capital market, an index has several functions: as an indicator of market trends, an indicator of profit levels, and a benchmark for portfolio or mutual fund performance. This capital market indicator fluctuates with changes in macroeconomic assumptions. Alongside capital market indicators, macroeconomic indicators and foreign exchange indicators also fluctuate. Investors must understand the behavioral patterns of stock price movements and the JCI's value based on internal and external factors before investing (Setia, T., & Wijaya, 2015).

Before investing, investors need to consider stock prices. According to a study by Sihaloho, J., & Rochyadi (2021), stock price is the price in the real market and is easy to determine since it is the ongoing market price or the market's closing price. Investors prefer companies with stable stock prices and upward movement trends. However, in reality, stock prices fluctuate, making it difficult for investors to determine the right time to buy or sell shares.

Sitanggang (2014) states that in the process of offering or issuing initial public shares, one key consideration is stock price determination. This affects the amount of funds a company receives and investor interest in buying shares.

Research should be conducted to determine the most reasonable initial stock price for investors. The assessment will be implemented in determining the initial share price of a company. In this study, the initial stock price assessment will be calculated based on the research object.

A study by Dewi (2020) showed that an initial offer of early returns has no effect on the stock offering's initial return. Investors cannot rely solely on benchmarking to assess a company's quality. The results indicate that firm characteristics influence initial returns. Investors can assess company quality by considering businesses that have operated for a long time and demonstrated sustainability. The findings also show that firm size reflects the initial return and affects its magnitude.

Researchers also found consistent evidence of high returns for firms of all sizes with negative earnings. Alsufy, F., Afifa, M. A., & Soda (2020) investigated the effect of earnings quality on stock market value and the role of liquidity as a mediating factor. Their study concluded that the market value of Jordanian industrial public shareholder companies is influenced by earnings quality. High earnings quality positively affects stock market value. While liquidity acts as a mediator, it is not a full mediator, as there is no direct relationship between earnings quality and liquidity. However, a positive relationship exists between earnings quality and liquidity (Sidiq W, A., & Niati, 2020).

LITERATURE REVIEW

Signalling Theory

Signaling theory was first introduced by Spence in his research titled Job Market Signaling. This theory involves two parties: internal parties (management), who provide signals, and external parties (investors), who receive these signals. By giving a signal, management aims to provide relevant information that investors can use, and investors adjust their decisions based on their understanding of these signals. In the research by Kübler et al., titled Job-Market Signaling and Screening: An Experimental Comparison, they analyzed Spence's educational game in the experimental market. The researchers compared signal and variance filtering and examined the effect of increasing the number of competing entrepreneurs from two to three.

Signaling theory explains how a company should provide useful signals to financial report users. The signals given by the company often take the form of information, such as the company's annual financial report, which outlines management's efforts to maximize profits. A signal could be information stating that company A is better than company B, or it could be reliable information about the company's future goals or prospects. This information is crucial for financial report users, especially investors, who need it to analyze the risks

associated with each company. Good companies will publish their financial reports openly and transparently, including voluntary disclosures.

According to signaling theory, an entity sends signals to external parties, particularly users of financial documents. These signals convey information about actions taken by management to achieve the owner's agenda. The signal could come in the form of promotions or other details highlighting the entity's advantages over others. Signaling theory further explains that signals provided by managers aim to reduce information asymmetry in two extreme situations: small, insignificant differences, and large differences that are critical for management or shareholders. The information shared by managers through financial records includes accounting policies that generate high-quality corporate profits. These accounting principles help prevent earnings manipulation and assist financial report users in presenting earnings that are not overstated (Alós-Ferrer, C., & Prat, 2012).

Market Effeciency

The efficient market is a market condition in which stock market prices fully reflect all available information. In an efficient market, market prices respond instantly to new information, which is reflected in changes to stock prices. The key to measuring an informationally efficient market is to investigate the correlation between stock prices and accounting information. In this research, the researcher examines the impact of return on earnings, firm value, and firm size on stock prices. The researcher assumes that the efficiency of the securities market in the Indonesian capital market is semi-strong.

All market efficiency tests within the proposed theoretical framework, when the theory is tautological, must not be able to disprove the hypothesis stating that the market is efficient. The test is inadequate in this regard. Market efficiency requires that, in setting the price of a security at any time t - 1, the market correctly uses all available information. For simplicity, it is assumed that the price of a security at t - 1 depends only on the distribution characteristics along with the set price at t.

Stock Price Index

The stock price index is an indicator that shows the movement of stock prices. It functions as a gauge of market trends, meaning that the index's movement reflects the market conditions at a given time—whether the market is active or sluggish (Setia, T., & Wijaya, 2015). The index allows individuals to track the current trend of stock price movements, whether rising, stable, or falling. The movement of the index is crucial for investors to determine whether to sell, hold, or buy stocks. Since stock prices fluctuate within seconds and minutes, the index value also moves up and down quickly.

The stock price index represents stock prices at a specific time or period. It is a record of changes and movements in stock prices from when they were first introduced until a certain point, and the presentation of the index is based on an agreed-upon reference number. The movement of the index indicates changes in market conditions. When there is demand or active transactions, as shown by an increasing stock price index, the market is considered to be active. A stable market is reflected by a fixed index, while a sluggish market is indicated by a declining index. Therefore, the JCI can be used as a barometer of a country's economic health and as a foundation for statistical analysis on current market conditions.

According to Brigham (2019) in the book Financial Management, "A market price is the actual market price based on perceived but possibly incorrect information as seen by the marginal investor." The stock price represents the amount an investor is willing to pay for a stock and serves as a key indicator for assessing a company's performance.

Currently, PT. Indonesia Stock Exchange offers various categories of stock price indexes, which are continuously disseminated through print and electronic media to guide investors in making decisions in the capital market (www.idx.com).

Research Hypotheses

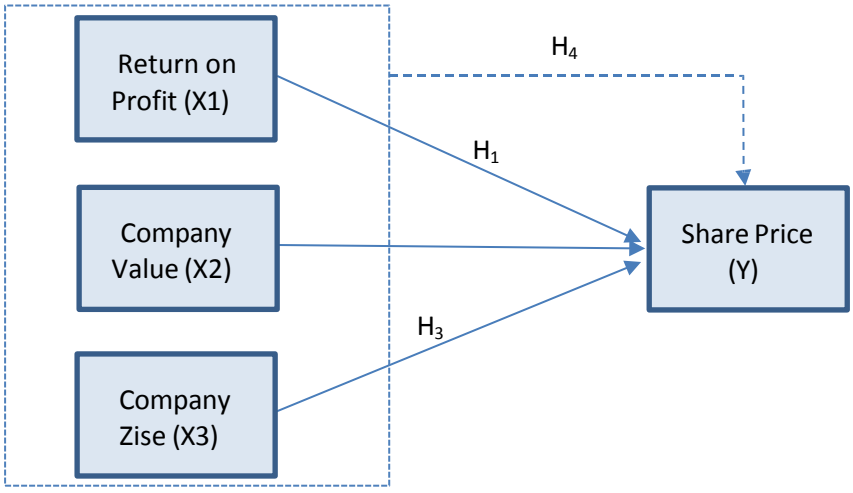

Figure 1. Research Model
Source: Processed Data by Researchers

Return on profit yang diukur dalam penelitian ini adalah Return on Investment (ROI) atau tingkat pengembalian investasi serta efektivitas operasi perusahaan, yang mengukur kemampuan perusahaan dalam mengelola semua dana yang diinvestasikan pada aset yang digunakan untuk operasi untuk memperoleh keuntungan. ROI memberikan gambaran tentang seberapa efisien penggunaan aset dan fluktuasi penjualan serta biaya. Semakin tinggi rasio ini, semakin baik kondisi perusahaan (Machmuddah et al., 2020).

$$ROI = \frac{Net\ Profit}{Total\ Asset} x100\%$$

H_1: The impact of return on profit has a significant influence on stock prices in manufacturing companies.

The company valuation states the market value of outstanding debt securities and company equity. A high company proprietorship is the desire of the company owners since a high value indicates the high prosperity of shareholders. The wealth of shareholders and companies is presented by the market price of shares which is a reflection of investment decisions, funding and asset management (Chasanah, 2018).

$$Price\ to\ Book\ Value\ (PBV) = \frac{Common\ Stock\ Market\ Value + Book\ Value\ of\ Debt}{Total\ Asset}$$

H_2: Firm value significantly affects the stock prices in manufacturing companies.

Company size refers to the scale or variable that describes a company's capacity based on several factors, such as total assets, log size, market value, shares, total sales, total income, total funds, and others. Companies, based on their operational scale, are generally divided into three categories: large companies, medium companies, and small companies. According to Sihaloho & Rochyadi (2021), company size can be determined by the total equity value, sales value, or asset value.

Company Size = Total Asset

Stock Price = Closing Price

H_3: Company size has a significant effect on stock prices in manufacturing companies.

H_4: Return on profit, firm value, and company size have significant influence on stock prices in manufacturing companies.

RESEARCH METHODOLOGY

The type of research conducted in this study is causal associative, which aims to analyze the causal relationship between the independent variable (the variable that affects) and the dependent variable (the variable that is influenced).

The population in this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX), as per the IDX publication. The sample for this study includes manufacturing companies from various industrial sectors that have been listed on the IDX during the period of data collection, which spans

from 2018 to 2020. A total of 39 observations were selected from these companies.

The sampling technique used in this research is purposive sampling, based on specific criteria that support the research. The sample criteria for this study are as follows:

1. Companies that report annual financial statements for the 2018-2020 period.
2. Companies that use Rupiah currency (Rp).
3. Companies that earned consecutive profits in 2018-2020.
4. Companies that have complete data used in this study.

The data used in this research is quantitative, sourced from secondary data. This study utilizes secondary data in the form of financial statements obtained from official data published by the Indonesia Stock Exchange, accessed through the websites www.idx.co.id and www.sahamok.com.

Multiple Regression Analysis

Multiple Linear Regression is an equation that describes the relationship between two or more independent variables and one dependent variable. In this study, Multiple Linear Regression is applied to determine whether there is an effect on profit returns, firm value, and firm size. It is also used to examine the effect on stock prices of various industrial sector manufacturing companies listed on the IDX. The results were obtained through data processing using the SPSS program. The multiple regression models used in this study are:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Description:

Y = Stock Price
α = Constant
β_1 β_2 β_3 = Coefficient
X_1 = Return on Profit
X_2 = Firm Value
X_3 = Company Size
e = Error

RESULT AND DISCUSSION

Research Result

This study obtained data from various manufacturing companies in different industrial sectors, listed on the Indonesian Stock Exchange (IDX) during the 2018-2020 period. The IDX classifies manufacturing companies into various industrial sectors.

Data collection for this study was carried out using a purposive sampling technique based on specific criteria. The following are the sampling criteria and the results of the research sample selection, as shown in Table 1.

Table 1. Sampling Criteria

No	Description	Total
1	The company reports its annual financial statements for the 2018-2020 period	40
2	The company does not report its 2018-2020 annual financial statements	-5
3	The company uses the rupiah currency (Rp).	-8
4	Have incomplete data used in this study	-9
5	Outlier Data	-5
Number of Selected Samples		13
Total Sample 13 X 3 Years		39

Source: Processed Data by Researchers

The list of companies as the research sample is presented in Table 2 as follows:

Table 2. Research Sample

No	Code	Company Name
1	AMIN	Ateliers Mecaniques D'Indonesie Tbk
2	MYTX	Asia Pacific Investama Tbk
3	ASII	Astra International Tbk
4	AUTO	Astra Otoparts Tbk
5	GJTL	Gajah Tunggal Tbk
6	BOLT	Garuda Metalindo Tbk
7	IMAS	Indomobil Sukses International Tbk
8	INDS	Indospring Tbk
9	JECC	Jembo Cable Company Tbk
10	KBLM	Kabelindo Murni Tbk
11	KBLI	KMI Wire and Cable Tbk
12	LPIN	Multi Prima Sejahtera Tbk
13	BIMA	Primarindo Asia Infrastructure Tbk

Source: Processed Data by Researchers

Multiple Linear Regression Analysis

The result of the multiple linear regression is an equation that describes the relationship between two or more independent variables and one dependent variable. The results of the multiple regression used in this study are described in Table 3 below:

Table 3. Multiple Linear Regression Analysis Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-809.396	3147.68		-0.257	0.799
	Return on Profit	52.454	17.789	0.595	2.949	0.006
	Firm Value	1069.34	4147.77	0.038	0.258	0.798
	Company Size	78.824	114.744	0.139	0.687	0.497

a. Dependent Variable: Stock Price

Source: Processed Data by Researchers

EVA= -809.396+52.454 PL+1069.341 NP-78.824 UP +e

Hypothesis 1: Based on Table 3, the regression coefficient value of the Return on Profit variable is 52.454, which is positive, with a significance value of 0.006 < 0.05. This indicates that the Return on Profit variable has a positive effect on stock prices. Therefore, the first hypothesis is accepted.

Hypothesis 2: Based on Table 3, the regression coefficient of the Firm Value variable is 1,069.341, which is positive, with a significance value of 0.798 > 0.05. This suggests that the Firm Value variable has no significant positive effect on stock prices. Thus, the second hypothesis is rejected.

Hypothesis 3: Based on Table 3, the regression coefficient of the Firm Size variable is 78.824, which is positive, with a significance value of 0.497 > 0.05. This concludes that the Firm Size variable has no significant effect on stock prices. Therefore, the third hypothesis is rejected.

Hypothesis 4: This test evaluates whether the independent variables affect the dependent variable simultaneously. The calculated F table value is F (k: n-k) = F (3: 36) = 2.87. Based on the results of the F test, as shown in Table 4, the calculated F value is 4.143, which is greater than the F table value of 2.87, with a significance of 0.013 < 0.05. This shows that the independent variables—Return on Profit, Firm Value, and Firm Size—simultaneously have a significant effect on the dependent variable, Stock Prices. Thus, the fourth hypothesis is accepted.

Table 4. F-test Result

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	83828165.28	3	27942721.8	4.143	.013b
	Residual	236037549	35	6743929.97		
	Total	319865714.3	38			

a. Dependent Variable: Stock Price

b. Predictors: (Constant), Company Size, Firm Value, Return on Profit

Source: Processed Data by Researchers

Research Discussion

Based on Table 3, the regression coefficient value for the Return on Profit variable is 52,454, which has a positive value with a significance value of 0.006 (< 0.05). This indicates that the Return on Profit variable positively affects stock prices. Therefore, the first hypothesis is accepted. The results of this study suggest that Return on Profit will increase the company's stock price. This finding is supported by Kitsamphanwong, M., Pholkaew, C., & Ngudgratoke (2021), whose research stated that stock bidding prices are one of the factors influencing the initial stock return. High or low prices per share offered by the company can determine future stock prices. When profit returns increase in the company, it directly affects stock prices. Additionally, company profits from asset sales can increase overall profitability. A good return on profits can also attract new investors to invest in the company.

Based on Table 3, the regression coefficient for firm value is 1069.341, which is a positive value, but the significance value is 0.798 (> 0.05). This suggests that firm value does not have a significant positive effect on stock prices. Therefore, the second hypothesis is rejected. The results of this study indicate that firm value does not affect share price bidding in various industrial sub-sectors of manufacturing companies. Firm value represents the market value of outstanding debt securities and company equity. A high firm value is desirable for company owners as it reflects shareholders' prosperity. However, in this study, there was no effect of firm value on stock prices, as investor assessments when purchasing shares are minimally influenced by firm value.

Based on the research results shown in Table 3, the regression coefficient value for the company size variable is 78,824, with a positive value and a significance value of 0.497 (> 0.05). This means that the company size variable does not significantly affect stock prices. Therefore, the third hypothesis is rejected. The results of this study suggest that company size does not affect share price bidding in manufacturing companies across various industrial sub-sectors. Company size can be defined based on assets, total sales, average sales, and average total assets. Indonesian researchers generally use total assets or total sales

as a proxy for company size. Company size is important for investors and creditors as it relates to investment risk (Dwinda, E. N., 2021).

The independent variables of Return on Profit, firm value, and company size have a significant simultaneous effect on the dependent variable of stock prices. Therefore, the fourth hypothesis is accepted. This aligns with the function of the stock price index, according to Setia, T., & Wijaya (2015), which is a key indicator of stock price movements. In the capital market, an index is expected to serve five functions:

1. As an indicator of market trends.
2. As an indicator of profit levels.
3. As a benchmark for portfolio performance.
4. To facilitate portfolio formation with a passive strategy.
5. To aid the development of derivative products.

The stock price index represents stock prices at a specific time or period. It records changes and movements in stock prices since their initial circulation. The presentation of the stock price index is based on an agreed-upon basic number unit. The movement of the index value reflects market conditions: active market transactions are indicated by an increasing stock price index, while stable conditions are shown by a fixed index. A declining index typically signals sluggish market activity. Thus, the Jakarta Composite Index (JCI) can serve as a barometer of a country's economic health and as a basis for statistical analysis of current market conditions.

CONCLUSION

This study focuses on discussing and applying a causal associative approach to identify stock value trends in the Indonesian stock market. The findings indicate that return on earnings has a significant partial effect on stock prices, meaning that a better return on earnings (ROI) positively impacts stock prices.

However, company value does not partially affect stock prices, implying that the price-to-book value (PBV) has no impact on stock prices. Similarly, company size also has no partial effect on stock prices. In this study, total assets are used as a proxy to measure firm size, indicating that total assets do not influence a company's stock price.

Nevertheless, when tested simultaneously, return on earnings (ROI), firm value (PBV), and firm size (total assets) significantly affect stock prices (closing prices). This suggests that stock price changes occur when stock price levels, profit returns, firm value, and firm size are in favorable conditions.

The limitations of this study include the relatively small sample size, which does not fully represent the research population. The study observed 13 manufacturing companies from various industrial sectors listed on the Indonesia

Stock Exchange (IDX) based on specific criteria over three periods (2018–2020), resulting in a total of 39 observations.

For future research on this topic, it is recommended to replace or add independent variables. To achieve more comprehensive results, researchers should also expand the observation sample to better address the research question.

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