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Research pa

The Influence of Financial Performance against Stock Prices in Companies Listed in LQ45 Index 2012 - 2016 Period

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Abstract

This study aims to determine the effect of financial performance of each variable on stock price of the companies listed in the LQ45 Index in 2012 – 2016. This type of research used in this research is explanatory research with descriptive research method and correlation. This study used secondary data. The research population comprised LQ45 companies in 2012-2016 consisting of 45 companies. The sample was selected by the purposive sampling technique and 21 companies were included in the research sample. The data analysis technique was panel data regression using the random effect model. The results of the study showed that earnings per share had a significant effect on stock price. Cash position had a significant effect on stock price. Trading volume had a significant effect on stock price. While return on equity, debt to asset ratio and firm size did not have significant effect on stock price. The results of research F-test showed that the model in regression equation is just right. The coefficient of determination (R^2) in this study was 0.758096. This means that the contribution of all independent variables was explained the dependent variable was 75.8%, while the remaining 24.2% was explained by independent variables outside the model.

Keywords: *financial performance, stock price, LQ45.*

1. Introduction

For companies that issue shares in the capital market, the stock price traded on the stock exchange is an indicator of the company's value [13]. If the stock price is high, then the value of the company will be high as well and this also reflects the high level of investor confidence in the company that issued the shares [14]. The trust of investors or potential investors is very beneficial for the issuer, because the more people who believe in the issuer, the desire to invest in the issuer is stronger. The more demand for shares of an issuer can increase the price of the shares. Then, the stock price is important for the company.

Analysis tools about stock valuation that will be discussed in this study are fundamental analysis using data derived from financial statements. In analyzing financial statements are usually seen based on financial ratios contained in the financial statements [4].

In the study of financial performance ratios used to analyze the effect on stock prices is Return on Equity (ROE) which represents profitability ratios, Debt to Asset Ratio (DAR) represents solvency ratios, and Earning per Share (EPS) represents the market ratio, Company Size (Firm Size), Cash Position (CP) and trading volume.

Table 1: Stock Price Development, Size, Cash Position and EPS LQ45 Index Company [15]

Year	Stock Price		Size		Cash Position	
		Growth		Growth		Growth
2012	10810	-	17.03	-	1.46	-
2013	9877	-9%	17.18	0.89%	1.62	11%
2014	11874	20%	17.33	0.89%	1.46	-10%
2015	10225	-14%	17.42	0.53%	1.93	32%
2016	11024	8%	17.49	0.36%	6.41	233%

Based on the table above it can be seen that stock prices, company size, cash positions and earnings per share have fluctuated. In 2012 – 2013, the share price decreased while the company size and cash position experienced an increase. In 2014, the stock price increased but the increase was not followed by an increase in cash position. In 2015, the stock price experienced a decline again while the size and cash position experienced an increase. In 2016, the stock price experienced an increase while earnings per share decreased.

Based on the background and phenomena that have been described the identification of the problem in this study is how the influence of the financial performance of each variable on the stock price of the companies listed in the LQ45 Index period 2012 - 2016. The purpose of this study is to determine the effect of each financial performance - each variable on the stock price of the stock price in the companies listed in the LQ45 Index for the period 2012-2016.

2. Literature Review

2.1. Financial performance

Financial performance is the result or achievement that has been achieved by the management of the company in carrying out its functions of managing company assets effectively during a certain period [8]. Analysis of financial performance according to [2], there are five stages namely reviewing financial report data, performing calculations, making comparisons of the results of the calculations that have been obtained, interpreting the various prob-

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lems found and finding and providing problem solving (solution) to various problems found.

2.2. Return on Equity (ROE)

Return on Equity (ROE) is a tool commonly used by investors and company leaders to measure how much profit they get from their own capital owned by the company. According to [12] revealed that ROE is comparing net profit after tax (minus ordinary stock dividends) with equity that has been invested by shareholders in the company. Thus, high ROE means showing that the company has the opportunity to provide a large income for shareholders. This situation shows that the company can use its equity effectively and efficiently, so that shareholders believe that in the future the company will be able to provide greater revenue, this results in an increase in share prices.

2.3. Debt to Asset Ratio (DAR)

Debt to Asset Ratio is the ratio used to measure the ratio between total debt and total assets. According to [11], debt to total asset ratio is that can be called a debt ratio (debt ratio), measuring the percentage of the amount of funds derived from debt. What is meant by debt is all debt owned by the company both short-term debt and long-term debt. Creditors prefer a lower debt ratio because the security level of funds is getting better.

2.4. Earning Per Share (EPS)

Earning per share (EPS) is a net profit for each share that a company can achieve in carrying out its business activities. The amount of EPS can be used as information for investors on the shares of a company, whether the shares have large profits or not. According to [7], EPS describes the amount of rupiah earned for each ordinary share or net profit per ordinary share. Because investors generally want a large income from a stock, the higher the EPS of a stock, this indicates that the company has succeeded in increasing the prosperity of the shareholders, this will attract investors to buy the company's shares. The higher the investor's demand to buy the company's shares, in accordance with the law of demand and supply, it can automatically encourage the increase in the price of a company's stock [3].

2.5. Firm Size

Company size is one of the things that also needs to be considered, especially for investors and creditors. The size of a company will affect the company's ability to bear the risks that may arise from various situations faced by the company. According to [10], firm size is a measure that describes the size of a company which is indicated by the total assets of the company.

2.6. Cash Position (CP)

Cash position of a company is an important factor that must be considered before making a decision determining the amount of dividends to be paid to shareholders. According to [5], Cash Ratio or Cash Position Ratio (CPR), which is a ratio that measures a company's ability to repay its debts which must immediately be met with cash available in the company and effects that can be immediately cashed. The standard ratio of Cash Ratio is 100% or 1: 1.

2.7. Trade Volume

According to [6], trading volume is one indicator of stock liquidity on information contained in the capital market. In general, stock trading volume is the number of shares of an issuer traded on the capital market every day with the price level agreed upon by the seller and buyer of the shares. Trading volume can be used as a reference for learning information in the capital market and valuation of shares.

2.8. Stock Price

The Indonesia Stock Exchange defines stocks as a sign of a person's equity or a party (business entity) in a company or limited liability company. Shares are one of the capital market instruments that are most in demand by investors. Share prices are one indicator of company management. According to [1], stock prices determine the owner's wealth (stockholders). This is done by maximizing shareholder wealth (stockholder wealth maximization) which translates into maximizing the company's ordinary stock price.

3. Methodology

3.1. Object of research

Objects to be examined in this study are return on equity, debt to asset ratio, earnings per share, company size, cash position and trading volume as independent variables while the dependent variable is represented by the stock price.

3.2. Population and Sampling Technique

The population in this study is the company listed in the LQ45 Index for the period 2012-2016 which consists of 45 companies. Sampling was done by purposive sampling method. According [9], purposive sampling or purposive sampling is a technique of determining samples with certain considerations. The criteria that meet to be sampled in this study are as follows:

a. Companies whose shares have entered and become part of the LQ45 index on the Indonesia Stock Exchange during 2012 - 2016.
b. Every company sampled in this study has complete financial statements including ICMD for the period 2012-2016.
c. LQ45 company which is not a banking company and other financial institutions.

The number of samples included in the criteria of this study are 21 companies.

3.3. Types and Data Sources

The type of data used in this study is a type of secondary data. The data used in this study was obtained from [15].

3.4. Data collection technique

Data collection techniques conducted by the authors in this study are Library Research and Internet Research.

3.5. Data analysis method

This type of research in this research is explanatory survey research with descriptive and verification research methods. To find out how much influence the company's financial performance is measured through return on equity (ROE), debt to asset ratio (DAR) earnings per share (EPS), firm size (cash size), cash position (CP) and trading volume on stock prices, it is necessary to take several analysis steps, namely panel data regression analysis and hypothesis testing.

3.6. Panel Data Regression Analysis Techniques

In this study using time series data and cross section, the regression used is panel data regression. The regression model can be written as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + \varepsilon$$

where

Y	= Price of shares
α	= Constant
X_1	= Return on Equity (ROE)
X_2	= Debt to Asset Ratio (DAR)
X_3	= Earning Per Share (EPS)
X_4	= Measure of Business
X_5	= Cash Position
X_6	= Volume of Business
$\beta_{(1...2)}$	= Coefficient regresion on independent variables
i	= Industry LQ45
t	= Year 2012-2016
e	= Error term

3.7. Hypothesis testing

In this study, the test method against the proposed hypothesis is carried out t test and model test and analysis of the coefficient of determination (R2).
1. T test is used to determine whether the independent variable regression model (X) individually has a significant effect on the dependent variable (Y).
2. Model Test / Test F
The F test is used to test whether the regression model that is made is right / significant or inappropriate / non-significant.
3. The coefficient of determination (R2) is used to measure the extent of the ability of the model to explain the variation of the dependent variable

4. Results and Discussion

4.1. Panel Data Regression

After doing 3 tests namely chow test, thirst test and Lagrange Multiplier test, it can be concluded that random effect is the best model for estimating the parameters of the panel data regression model. The regression model in this study is as follows:

$$Y = 15.064 + 0.129\,ROE + 0.076\,DAR + 0.274\,EPS + 0.814\,SIZE + 0.011\,CP - 0.068\,Volume + \varepsilon$$

4.2. Hypothesis testing

4.2.1. T test

This test is done to test the hypothesis proposed in the study or to see the influence of each independent variable individually on the dependent variable.

Table 2: T test [15]

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 08/15/17 Time: 12:09
Sample: 2012 2016
Periods included: 5
Cross-sections included: 21
Total panel (balanced) observations: 105
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15.06433	82.27169	0.183105	0.8551
X1	0.129032	0.185412	0.695924	0.4881
X2	0.076111	0.259468	0.293334	0.7699
X3	0.274527	0.076117	3.606636	0.0005
X4	0.814059	4.808186	0.169307	0.8659
X5	0.010596	0.004247	2.495208	0.0143
X6	-0.068287	0.024688	-2.765971	0.0068

Individual testing results are as follows:

4.2.1.1. Effect of Return on Equity on Stock Prices

Based on the results of the t test on the regression model, the significance value of the Return on Equity variable is 0.4881 > 0.05 (significance level). Besides that, it can be seen also from the results of the comparison between t count and t table which shows the tcount of 0.695924 while t table is 1.984. From these results, it can be seen that t count < t table is 0.695924 < 1.984. So, it can be concluded that H1 rejected means that the variable Return on Equity does not significantly influence the stock price variable.

4.2.1.2. Effect of Debt to Asset Ratio on Share Prices

Based on the results of the t test on the regression model, the significance value of the Debt to Asset Ratio variable is 0.7699 > 0.05 (significance level). Besides that, it can also be seen from the comparison results between t count and t table which shows tcount of 0.293334 while t table is 1.984. From these results, it can be seen that t count < t table is 0.293334 < 1.984. So, it can be concluded that H2 rejected means that the Debt to Asset Ratio variable has no significant effect on stock price variables.

4.2.1.3. Effect of Earning Per Share on Stock Prices

Based on the results of the t test on the regression model, the significance value of the Earning per Share variable is 0.0005 < 0.05 (significance level). Besides that, it can also be seen from the comparison results between t count and t table which shows the tcount of 3.606636 while t table is 1.984. From these results, it can be seen that t count > t table is 3.606636 > 1.984. So, it can be concluded that H3 is accepted, meaning that the variable Earning per Share has a significant effect on stock price variables.

4.2.1.4. Effect of Company Size on Stock Prices

Based on the results of the t test on the regression model, the significance value of the Company Size variable was 0.8659 > 0.05 (significance level). Besides that, it can be seen also from the results of the comparison between t count and t table which shows the tcount of 0.169307 while t table is 1.984. From these results, it can be seen that t count < t table is 0.169307 < 1.984. So, it can be concluded that H4 is rejected, meaning that the Company Size variable does not significantly influence the stock price variable.

4.2.1.5. Effect of Cash Position on Stock Prices

Based on the results of the t test on the regression model, the significance value of the Cash Position variable is 0.0143 < 0.05 (significance level). Besides that, it can also be seen from the comparison results between t count and t table which shows tcount value of 2.495208 while t table is 1.984. From these results, it can be seen that t count> t table is 2,495208 > 1,984. So, it can be concluded that H5 is accepted meaning that the Cash Position variable has a significant effect on the stock price variable.

4.2.1.6. Effect of Trading Volume on Stock Prices

Based on the results of the t test on the regression model, the significance value of the Trade Volume variable is 0.0068 < 0.05 (significance level). Besides that, it can also be seen from the comparison results between t count and t table which shows the tcount of -2.765971 while the table is -1.9984. From these results, it can be seen that t count > t table is -2,765971 > -1,984. So, it can be concluded that H6 is accepted, meaning that the Trade Volume variable has a significant effect on stock price variables.

4.2.2. Model Testing/ F Testing

Table 3: Model testing/F testing [15]

R-squared	0.758096	Mean dependent var	5.828571
Adjusted R-squared	0.712673	S.D. dependent var	42.12926
S.E. of regression	0.373818	Sum squared resid	136945.8
F-statistic	5.682095	Durbin-Watson stat	2.222193
Prob(F-statistic)	0.000042		

Based on Table 3, the results of F-statistical probability are 0.000042 < 0.05. Besides that, it can also be seen from the comparison between f count and ftabel which shows the fcount value is 5.682095 while ftabel is 2.19. From these results, it can be seen that fcount > ftabel is 5.682095 > 2.19. So, it can be concluded that the regression model is right and can be used.

4.2.3. Determination Coefficient (R^2)

The determination coefficient is used to measure how far the ability of the model in explaining the variation of the independent variable to the dependent variable is statistically. R^2 value in the regression results is 0.758096. This means that the contribution of all independent variables in explaining the dependent variable is 75.8%. The remaining 24.2% is explained by other variables outside the research model.

5. Conclusion

Based on the results of the t-test conducted by the author, it can be concluded that only earnings per share, cash position and trading volume variables have a significant effect on stock prices in companies listed in the LQ45 Index for the period 2012 - 2016. While return on equity, debt to asset ratio and the size of the company does not have a significant effect on stock prices in companies listed in the LQ45 Index for the period 2012-2016.
Based on the results of the research and the conclusions that have been presented, the researcher tries to give suggestions that are expected to be useful as follows:

1) For the Company
   Companies must be able to improve the financial performance of their companies by still paying attention to the values of the company's financial ratios which are used as benchmarks by investors to what extent the company's performance, while maintaining the value of financial ratios, can attract investors to buy shares or invest which will impact company stock price.

2) For Investors
   Based on the visible conditions, investors should pay more attention to earnings per share, cash position and trading volume in making investment decisions in the company. Because in this study earnings per share, cash position and trading volume have a significant effect on stock prices

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