

# THE IMPACT OF EARNING PER SHARE AND RETURN ON EQUITY ON STOCK PRICE

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## ABSTRACT

Research conducted to determine the effect of Earning Per Share and Return on Equity on Stock Prices, a survey on the Nikkei 225 Index of issuers in 2018 on the Japan Stock Exchange. the number of issuers in this study was 57 issuers. The data taken is the 2018 financial report data. Based on the results of data processing with the SPSS version 25 program shows that Earning Per Share and Return on Equity affect the Stock Price of 67.3% and partially Earning Per Share has a positive effect on Stock Prices. Furthermore, Return on Equity has a negative effect on Stock Prices. If compared to these two variables, EPS has the biggest and significant influence on stock prices, however, Return on Equity has a negative effect on stock prices

**Keywords:** Earning Per Share, Return on Equity and Stock Price

## INTRODUCTION

People who invest their money in business are interested in the return the business is earning on that capital, therefore an important decision faced by management in relation to company operations is the decision on the use of financial resources as a source of financing for the company to produce optimal revenue

Investors will assess the company by looking at the results of the investment invested. Thus, management is very focused on utilizing these financial resources to generate income.

Investors in analyzing issuers' many methods are used to conduct their analysis, both technical analysis and fundamental analysis. Among them in analyzing investments is the analysis of Earning Per Share and Return on Equity, with this analysis will be seen to what extent the strength of capital invested in the company can generate profits to investors. If the results of the analysis are profitable, investors will be interested in investing their funds through stocks. However, if the results are not profitable, investors will tend not to invest in the issuer. In this case, investors are not interested in stocks if they are not profitable. The valuation of stock returns will show the potential use to predict future stock returns (Colin Clubb, Mounir Naffi; 2007).

Based on this background, researchers are interested in examining the effect of earnings per share and return on equity on share prices in the Nikkei 225 Index issuers.

## 2. LITERATURE

Earnings Per Share (EPS) is a ratio that shows how much profit (return) obtained by investors or shareholders per share by dividing net income after tax with the number of ordinary shares outstanding. Earnings per share is the amount of income earned on a share of common stock during an accounting period (H. Gibson, Charles. 2009).

Earnings per share can be used as an indicator of the company's success in managing the company. So that earnings per share is one way to measure success in achieving profits for shareholders in a company. The EPS can be formulated as follows:

Earnings per share = Net income/Number of shares of stock

(George A. Manning, 2005)

Investors will be sure that the investment can have a positive impact on investors. Thus, eps is very important for investors in measuring the success of management in managing a company. EPS can reflect the profits obtained by the company in utilizing existing assets in the company.

High eps reflect the level of effectiveness and efficiency of the company's operations in managing the company, thereby affecting investors to invest in the company. Investments made by an actor in the form of purchases of company shares, but on the contrary if eps are low, investors will not be interested in the company. Then in addition to eps, investors do an analysis of the capital invested in the company including ROE.

Return on Equity (ROE) is a key measure of return (Lunt Henry, 2008). This ratio shows the resources that can be used to generate profits. Return on Equity is a measure of income available to company owners (both ordinary shareholders and preferred shares) of the capital they invest in the company. In general, of course, the higher the return the better the position of the company owner.

Return on equity (ROE) is formulated = Net profit after taxes / Shareholders' equity. (Van Horne, James C., John M. Wachowicz, Jr. 2008)

Jogiyanto (2015: 167) The price of a stock that occurs on the stock market at a certain time determined by market participants and determined by the demand and supply of the relevant shares in the capital market "

Agus Sartono (2008: 70) states that "Stock prices are formed through the mechanism of demand and supply in the capital market. If a stock experiences excess demand, then the stock price tends to rise. Conversely, if an excess of supply then the stock price tends to fall "

Factors that determine stock prices in the market are (Suad Husnan, 1998):

1. Estimated income.
2. The amount of profit required by investors, which one There are several factors that can affect stocks both internal and external (Brigham and Huston (2010: 33):
  1. Internal factors
    - a. Announcements about marketing product sales such as advertising, contract details, price changes, withdrawal of new product production reports, security reports, and sales reports.

- b. Announcement of funding, such as announcements relating to equity and debt.
  - c. A Management board of directors' announcement such as changes and changes in directors, management and organizational structure
  - d. Announcements of diversified takeovers such as investment merger reports, equity investments, take over by acquisition and acquisition reports, investment reports and others.
  - e. Investment announcements such as expanding research development plants and other business closures.
  - f. Labor announcements, such as new negotiations, new contracts, strikes, and others.
  - g. Announcement of the company's financial statements, such as forecasting earnings before the end of the fiscal year and after the end of the fiscal year, earnings per share, dividend payout ratio, price earning ratio, net profit margin, return on assets and others.
2. External factors

- a. Announcements from the government such as changes in savings and deposit rates, foreign exchange rates, inflation, and various economic regulations and regulations issued by the government,
- b. Legal announcements such as lawsuits against companies or against their managers and company demands against their managers.
- c. Securities industry announcements, such as reports on insider trading annual meetings, trading volume or price of trading restrictions or trading delays

### 3. RESEARCH METHOD

The method used in this research is descriptive analysis. Then the variables studied consist of capital structure as an independent variable and dividend payout ratio as the dependent variable.

#### Population

The population in this study are all issuers belonging to the 2018 Nikkei 225 Index on the Japan Stock Exchange as many as 57 companies which are described in table 1 below:

**Table 1.** Research Subject

NO	CODE	COMPANY NAME	NO	CODE	COMPANY NAME
1	4151	Kyowa Hakko Kirin Co., Ltd.	29	6952	Casio Computer Co., Ltd.
2	4502	Takeda Pharmaceutical Co., Ltd.	30	6954	Fanuc Corp.
3	4503	Astellas Pharma Inc.	31	6971	Kyocera Corp.
4	4506	Sumitomo Dainippon Pharma Co., Ltd.	32	6976	Taiyo Yuden Co., Ltd.
5	4507	Shionogi & Co., Ltd.	33	7735	Screen Holdings Co., Ltd.
6	4519	Chugai Pharmaceutical Co., Ltd.	34	7751	Canon Inc.
7	4523	Eisai Co., Ltd.	35	7752	Ricoh Co., Ltd.
8	4568	Daiichi Sankyo Co., Ltd.	36	8035	Tokyo Electron, Ltd.
9	4578	Otsuka Holdings Co., Ltd.	37	7201	Nissan Motor Co., Ltd.
10	3105	Nisshinbo Holdings Inc.	38	7202	Isuzu Motors, Ltd.
11	6479	Minebea Mitsumi Inc.	39	7203	Toyota Motor Corp.
12	6501	Hitachi Ltd.	40	7205	Hino Motors, Ltd.
13	6503	Mitsubishi Electric Corp.	41	7211	Mitsubishi Motors Corp.
14	6504	Fuji Electric Co., Ltd.	42	7261	Mazda Motor Corp.
15	6506	Yaskawa Electric Corp.	43	7267	Honda Motor Co., Ltd.
16	6645	Omron Corp.	44	7269	Suzuki Motor Corp.
17	6674	GS Yuasa Corp.	45	7270	Subaru Corp.
18	6701	NEC Corp.	46	7272	Yamaha Motor Co., Ltd.
19	6702	Fujitsu Ltd.	47	4543	Terumo Corp.
20	6703	Oki Electric Industry Co., Ltd.	48	4902	Konica Minolta, Inc.
21	6724	Seiko Epson Corp.	49	7731	Nikon Corp.
22	6752	Panasonic Corp.	50	7733	Olympus Corp.
23	6758	Sony Corp.	51	7762	Citizen Watch Co., Ltd.
24	6762	TDK Corp.	52	9412	Sky Perfect JSAT Holdings Inc.
25	6770	Alps Alpine Co., Ltd.	53	9432	Nippon Telegraph & Telephone Corp.
26	6841	Yokogawa Electric Corp.	54	9433	KDDI Corp.
27	6857	Advantest Corp.	55	9437	NTT DoCoMo, Inc.
28	6902	Denso Corp.	56	9613	NTT Data Corp.
			57	9984	Softbank Group Corp.

#### Data Analysis Technique

##### 1) Statistical Analysis

To test used analysis, the authors performed a correlational testing to determine whether there are the influence and the extent of their influence on the structure of capital towards Return on Equity.

##### 2) Determination Coefficient (R<sup>2</sup>)

To see how far the Traffic model in explaining variations in the dependent variable. The correlation coefficient between zero and one. The R<sup>2</sup> means the ability of the independent variables and the dependent variables explain very limited. A value close to one of the

independent variables provides almost all the information needed to predict the dependent variables. In general, the coefficient of determination to cross the data (Cross Section) is relatively low due to the large variation between each observation, while for the data period (Time Series) and cross-section usually has a high coefficient determination.

##### 3) Hypothesis Examination

The hypothesis is a temporary solution to the research problem; therefore, the formulation of research problems is usually arranged in the form of a question sentence.

## The Impact Of Earning Per Share And Return On Equity On Stock Price

Testing hypotheses to be done with the author with the following:

### Operational Hypothesis

Ho:  $\rho = 0$  Earnings Per Share and Return on Equity does not affect stockholders

Ha:  $\rho \neq 0$  Earnings Per Share and Return on Equity affect stockholders.

The Trust level used in this study was 95% with a 5% significance level ( $\alpha = 0.05$ ). It is often used in social science which exhibits real two variables correlation.

### 4. DISCUSSION

Based on the results of data processing using SPSS version 21, the following results are obtained:

**Table 2.** Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	,820a	,673	,661	2489,77059	,673	55,482	2	54	,000	1,596
a. Predictors: (Constant), ROE, EPS										
b. Dependent Variable: Stock Price										

Based on table 2 shows that EPS and ROE have a positive and significant effect on the stock price of 67.3%, meaning that investors in conducting investments guide the returns that might be acceptable to investors. This research is in accordance with the results of research by Yuli Haryanti, Sri Murtiasih. (2019), Martina Rut Utamia and Arif Darmawan. 2019

In addition, investors consider that EPS and ROE is an indicator of success obtained by the company, so that the company's value goes up, as a result, investors will invest in the company by buying shares in the company. Then the partial effect is described in the following table 3

**Tabel 3.** Coefficient

Coefficients A Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
(Constant)	1599,500	706,246		2,265	,028	183,563	3015,438			
1 EPS	14,853	1,602	,909	9,273	,000	11,642	18,065	,810	,784	,722
ROE	-113,694	68,224	-,163	-6,666	,101	-250,476	23,087	,389	-,221	-,130
a. Dependent Variable: Stock Price										

The effect of EPS on stock prices with a regression coefficient of 78.4% with a t value of 0,000 shows that EPS has a positive and significant effect on stock prices of 61.15%. This means that the higher the EPS, the stock price will increase significantly where  $t_{arithmic} < t_{table}$  that is  $0.00 < 0.05$  shows that investors see the impact of. While ROE has a negative effect on stock prices amounting to 0.049 with a regression coefficient of -22.1% with a significant level of  $0.101 > 0.05$  meaning that the higher the level of ROE will have a negative impact on stock prices, but not significant. The results of this study differ from the results of the research theory presented by Brigham, Eugene F., Joel F. Houston. (2009) When ROE is high, the stock price also tends to be high. Seyed Hossein Miri, Hamideh Aawani (2012), Nimer Alslihat. (2015) Stina Skogsvik Kenth Skogsvik (2010). Then the influence of other factors affecting stock prices outside of EPS and ROE of 32.7% or with an epsilon coefficient of 57.18%, this is likely to be expected from the factors of stock returns, return on assets and profit margins.

### 5. CONCLUSION

Based on the results of data processing that has been carried out with the 2018 financial statement data Nikkei 225 index with a sample of 57 issuers, it is found that EPS and ROE affect the stock price, and the influence in both the partial both influence but ROE negatively affects the stock. meaning that if ROE increases, it will have an impact on declining stock prices.

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The Impact Of Earning Per Share And Return On Equity On Stock Price

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APPENDIX:

NO	CODE	EMITEN	EPS	ROE	STOCK PRICE
			(YEN)	(%)	(YEN)
1	4151	Kyowa Hakko Kirin Co., Ltd.	99,29	8,59	2.111,00
2	4502	Takeda Pharmaceutical Co., Ltd.	237,50	9,60	4.798,00
3	4503	Astellas Pharma Inc.	81,02	12,96	1.544,50
4	4506	Sumitomo Dainippon Pharma Co., Ltd.	134,53	12,35	1.837,00
5	4507	Shionogi & Co., Ltd.	337,43	19,36	5.477,00
6	4519	Chugai Pharmaceutical Co., Ltd.	168,79	12,77	6.420,00
7	4523	Eisai Co., Ltd.	180,97	8,80	7.320,00
8	4568	Daiichi Sankyo Co., Ltd.	91,10	5,22	3.750,00
9	4578	Otsuka Holdings Co., Ltd.	151,26	4,71	4.469,00
10	3105	Nisshinbo Holdings Inc.	160,44	1,54	976,00
11	6479	Minebea Mitsumi Inc.	137,80	17,27	2.237,00
12	6501	Hitachi Ltd.	375,60	12,13	4.008,00
13	6503	Mitsubishi Electric Corp.	126,70	12,64	1.680,50
14	6504	Fuji Electric Co., Ltd.	264,35	12,14	3.655,00
15	6506	Yaskawa Electric Corp.	163,52	17,05	4.740,00
16	6645	Omron Corp.	296,85	12,96	5.980,00
17	6674	GS Yuasa Corp.	129,45	6,78	2.945,00
18	6701	NEC Corp.	176,53	5,28	3.005,00
19	6702	Fujitsu Ltd.	825,30	16,48	6.659,00
20	6703	Ok Electric Industry Co., Ltd.	67,78	5,97	1.502,00
21	6724	Seiko Epson Corp.	118,75	8,32	2.055,00
22	6752	Panasonic Corp.	101,15	14,39	1.562,00
23	6758	Sony Corp.	379,75	17,96	5.400,00
24	6762	TDK Corp.	501,47	7,84	9.450,00
25	6770	Alps Alpine Co., Ltd.	241,81	17,03	2.638,00
26	6841	Yokogawa Electric Corp.	80,27	8,12	2.372,00
27	6857	Advantest Corp.	92,68	15,46	2.307,00
28	6902	Denso Corp.	410,45	9,27	5.756,00
29	6952	Casio Computer Co., Ltd.	77,85	9,70	1.681,00
30	6954	Fanuc Corp.	938,66	12,88	25.985,00
31	6971	Kyocera Corp.	222,43	3,50	6.215,00
32	6976	Taiyo Yuden Co., Ltd.	127,88	10,08	2.012,00
33	7735	Screen Holdings Co., Ltd.	608,62	18,17	9.470,00
34	7751	Canon Inc.	234,07	8,87	3.134,00
35	7752	Ricoh Co., Ltd.	-186,75	-13,87	1.071,00
36	8035	Tokyo Electron, Ltd.	1.241,23	28,84	19.415,00
37	7201	Nissan Motor Co., Ltd.	190,96	14,57	1.116,00
38	7202	Isuzu Motors, Ltd.	134,17	12,15	1.680,50
39	7203	Toyota Motor Corp.	832,78	13,39	7.424,00
40	7205	Hino Motors, Ltd.	89,49	10,61	1.394,00
41	7211	Mitsubishi Motors Corp.	72,20	14,62	784,00

The Impact Of Earning Per Share And Return On Equity On Stock Price

42	7261	Mazda Motor Corp.	182,90	10,03	1.521,50
43	7267	Honda Motor Co., Ltd.	590,79	13,91	3.767,00
44	7269	Suzuki Motor Corp.	473,74	17,84	5.638,00
45	7270	Subaru Corp.	287,40	14,63	3.607,00
46	7272	Yamaha Motor Co., Ltd.	267,34	14,58	2.350,00
47	4543	Terumo Corp.	242,06	17,52	5.950,00
48	4902	Konica Minolta, Inc.	64,96	6,14	972,00
49	7731	Nikon Corp.	87,49	6,26	1.834,00
50	7733	Olympus Corp.	166,76	13,62	4.025,00
51	7762	Citizen Watch Co., Ltd.	60,65	7,82	855,00
52	9412	Sky Perfect JSAT Holdings Inc.	38,22	5,31	486,00
53	9432	Nippon Telegraph & Telephone Corp.	455,78	9,81	5.311,00
54	9433	KDDI Corp.	235,45	15,62	2.884,00
55	9437	NTT DoCoMo, Inc.	201,73	13,28	2.835,00
56	9613	NTT Data Corp.	41,48	7,11	1.241,00
57	9984	Softbank Group Corp.	908,38	24,58	8.555,00

Table 2. Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	,820a	,673	,661	2489,77059	,673	55,482	2	54	,000	1,596
a. Predictors: (Constant), ROE, EPS										
b. Dependent Variable: Stock Price										

Table 3. Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B		Correlations		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1	(Constant)	1599,500	706,246		2,265	,028	183,563	3015,438			
	EPS	14,853	1,602	,909	9,273	,000	11,642	18,065	,810	,784	,722
	ROE	-113,694	68,224	-,163	-1,666	,101	-250,476	23,087	,389	-,221	-,130
a. Dependent Variable: Harga Saham											