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The Effect of Financial Ratio on Stock Price in Telecommunications Sector Companies Listed on the Indonesia Stock Exchange

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Abstract---*This study aims to determine the effect of financial ratios on stock prices in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period. The population in this study were all telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2021. Using a purposive sampling technique, the research sample consisted of 10 telecommunications sector companies. Data analysis used the panel data regression method, where the selected model was the fixed effect. The results showed that the Current Ratio (CR), Return on Equity (ROE), Return on Assets (ROA), and Earning Per Share (EPS) had a positive and significant effect on stock prices. In contrast, the Debt to Equity Ratio (DER) was negative and significant to stock prices.*
Keywords---*current ratio, financial ratios, return on assets, return on equity, stock prices.*

Introduction

The development of the economy in Indonesia must be balanced with the development of the capital market in Indonesia. The more advanced and developed the capital market in Indonesia, the more the economy will be pushed forward and developed. The capital market is a place to invest for those who have excess funds (investors) and those who lack funds (issuers) to obtain additional capital for their companies. Investing in shares in the capital market is very attractive to investors because it promises two benefits in investing in shares in companies that have gone public: dividends and capital gains. For companies going public, the capital market is a means for increasing companies by providing capital facilities and is used to increase company value through information provided by companies going public to investors (Megawati, 2018).

The development of the capital market in Indonesia can be seen from the increasing number of investors in the Indonesian capital market from year to year. Based on data released by the Financial Services Authority (OJK) in January 2022, there were 7.49 million investors by the end of 2021. The number of capital market investors increased by 93% in 2021. Company performance can influence stock price movements in the capital market. The share price is a function of the firm's value. If the performance of the company going public increases, the value of

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the company will also be higher (Feng & Wang, 2000; Liang et al., 2016; Amir & Lev, 1996). On the stock exchange, the market will appreciate this in the form of an increase in the share price. Conversely, bad news about the company's performance will be followed by a decreased share price in the capital market. This is the argument that underlies why changes in share prices are relevant as a basis for evaluating the performance of companies that go public (Ircham et al., 2014).

One of the analytical tools to assess a company's stock price is to use fundamental financial ratio analysis. The company's financial performance can be done by analyzing the financial statements. One form of financial statement analysis is to analyze financial ratios. Financial ratios are grouped into five namely liquidity ratios, solvency ratios, activity ratios, profitability ratios, and market ratios (Widiyanti, 2014). Information in financial ratios is a reference for investors to analyze different business phenomena (Widiyanti, 2014). One of the sectors listed on the Indonesia Stock Exchange is the telecommunications sector. Business prospects in the telecommunications sector continue to grow in line with technology that continues to develop. Technological advances and the current use of telecommunications services show that the telecommunications market in Indonesia has enormous potential to be developed. It can be seen from the phenomenon of increasing internet users every year. The growth in the number of internet users from 1998 to 2020 is reaching 196.7 million.

This industry has had a significant influence on the smooth running of economic or business activities in Indonesia in the current digital era, especially during the Covid-19 pandemic when there was a shift in activities from offline to online such as Work From Home (WFH) and School From Home (SFM) activities which causing internet data usage to increase (Lewellen, 2004; Li & Whalley, 2002; Sharma et al., 2019). This is proven based on the databooks. Metadata.co.id website shows that the GDP growth data released by BPS increased by 10.61% in 2020. However, this increase was inversely proportional to the movement of telecommunications company stock prices. This shows that increased internet users every year and increased sales only sometimes lead to increased stock prices.

Table 1
The average value of financial ratios in telecommunications sector companies for the 2017-2021 period

		Year				
No	Financial Ratios	2017	2018	2019	2020	2021
1	CR (%)	94.00	68.00	96.00	87.00	109.00
2	DER (%)	171.00	191.00	167.00	174.00	241.00
3	ROE (%)	17,23	4.93	10.82	7.00	15.75
4	ROA(%)	0.32	2.65	4,17	3,14	4,31
5	EPS	173.90	-0.30	105.70	62,39	1359,34
6	Stock price	2638,68	2451.34	2426,37	1949,23	3017,12

Source: www.idx.com (data processed)

Table 1 shows that during the 2017-2021 period, the average CR, DER, ROA, ROE, EPS, and stock prices of telecommunications sector companies experienced fluctuations. The highest average Current Ratio (CR) is 109.00% in 2021, and the lowest is 68.00% in 2018. The highest average Debt to Equity Ratio (DER) value is 241.00% in 2021, and the lowest in 2019 is 167.00%. The highest average value of Return on Equity (ROE) was in 2017 at 17.23%, and the lowest was in 2018 at 4.93%. The highest average value of Return on Assets (ROA) was in 2021 at 4.31%, and the lowest was in 2017 at 0.32%. The highest average Earning Per Share (EPS) value is in 2021 at 3017.12 and the lowest in 2018 at -0.30.

Research conducted by Banchuenvijit (2016); Sutapa (2018), shows that the Current Ratio (CR) has a positive effect on stock prices. This is in line with research (Megawati, 2018), on telecommunications companies which shows that CR has a positive and significant effect on stock prices. Research conducted by Permatasari & Mukaram (2019), shows that CR has a negative and insignificant effect on stock prices. Research Widayanti & Colline (2017), shows that CR has a negative and insignificant effect on stock prices. Research conducted by Widayanti & Colline (2017), shows that the Debt to Equity Ratio (DER) positively and significantly affects stock prices. This is in line with research conducted by Tumandung et al. (2017), showing that the Debt to Equity Ratio positively and significantly affects stock prices. Research conducted by Pražák & Stavárek (2017), states that the Debt to Equity Ratio (DER) positively affects stock prices. (Permatasari & Mukaram, 2019), Shows that the Debt to Equity Ratio (DER) has a negative and insignificant effect on stock prices. In line with this research, (Gayatri & Thamrin, 2020), in his research explained that DER harms stock prices.

Research conducted by Tumandung et al. (2017), shows that Return On Equity (ROE) positively and significantly affects stock prices. Research conducted by (Oleyinka & Chadire, 2021), in Nigeria shows that Return On Equity (ROE) significantly affects stock prices. This is in line with research (Al-Slehat, 2020), in Jordan which states that Return On Equity (ROE) affects stock prices. (Jermsittiparsert et al., 2019), His research also states that Return on Equity (ROE) affects stock prices. Research conducted (Hove et al., 2020), in Zimbabwe on companies listed on ZSE shows that Return On Equity (ROE) has no effect significant on stock prices. Research conducted (Abqari & Hartono, 2020), on companies in the agricultural sector shows that Return on Equity (ROE) hurts stock prices.

Research conducted by (Syahroni & Ruzikna, 2017) shows that Return on Assets (ROA) positively and significantly affects stock prices. In line with this research, research by Najib & Triyonowati (2017), shows that Return on Assets (ROA) positively affects stock prices. (Onguka, 2019), in his research in Kenya on 64 companies registered on the NSE (Ferrer & Tang, 2016), also stated that Return on Assets (ROA) has a significant effect on stock prices. Research conducted by Ligocká & Stavárek (2019), states that Return on Assets (ROA) significantly affects stock prices. Research (Al-Slehat, 2020), in Jordan, stated that Return on Assets (ROA) affects stock prices (Permatasari & Mukaram, 2019). For automotive companies in Indonesia shows that Return on Assets (ROA) has a negative and insignificant effect. Research conducted by Sutapa (2018), shows that Earning Per Share (EPS) positively affects stock prices. Research conducted by (Pradhan et al., 2017), in Nepal and research conducted by Badruzaman (2019), in Indonesia states that Earning Per Share (EPS) has a positive effect on stock prices. According to research Velankar et al. (2017) in India, Earning Per Share (EPS) negatively affects stock prices.

Literature Review

Signal Theory (signaling theory)

Spence first introduced the signaling theory in his research entitled Job Market Signaling. Spence (1973), suggests that a signal or signal gives a signal, and the sender (owner of the information) tries to provide relevant information that the recipient can utilize. The receiving party will then adjust its behavior according to its understanding of the signal. According to Syahroni & Ruzikna (2017), the Signaling theory suggests how a company should give signals to users of financial statements. This signal is in the form of information about what management has done to realize the owner's wishes. Signals can be in the form of promotions or other information stating that the company is better than others. Meanwhile, according to (Brigham & Houston, 2014), signaling theory is a company management behavior in giving instructions to investors regarding management's views on the company's prospects for the future.

Financial Ratios

Liquidity Ratio

According to Hery (2018), the liquidity ratio is the ratio that shows the company's ability to fulfill its obligations or pay its short-term debt.

Solvency Ratio

The solvency ratio is the ratio used to measure the extent to which a company's assets are financed with debt (Hery, 2018).

Profitability Ratio

Return on Equity (ROE)

According to Brigham & Houston (2014), Return on Equity (ROE) is a ratio for measuring net profit after tax with own capital. The higher the Return on Equity (ROE) of a company, the stronger the position of the company owner.

Return on Assets (ROA)

According to Brigham & Houston (2014), Return on Assets is a company's ability to generate profits with all the assets owned by the company. This ratio measures the return on total assets by dividing net income by the total assets.

Market Ratio

According to Sukamulja (2019), the Earning Per Share (EPS) ratio measures how much of a company's net profit is contained in one outstanding share. Meanwhile, according to Brigham & Daves (2018), Earning Per Share (EPS) is a ratio to measure the success of company management in providing profits for shareholders.

Research Methods

The research method used in this research is the descriptive method with a quantitative approach. The data used is secondary data in the form of company financial statements in the telecommunications sector available on the Indonesia Stock Exchange. The secondary data is panel data modeling using Eviews 10 software. The population used is companies in the telecommunications sector listed on the Indonesia Stock Exchange, with as many as 19 companies. The samples taken based on the characteristics of the sample with research criteria are ten companies. The variables used in this study consist of five independent variables, namely Current Ratio (CR) (X_1), Debt to Equity Ratio (DER) (X_2), Return on Equity (ROE) (X_3), Return on Assets (ROA) (X_4), Earning Per Share (EPS) (X_5) and one dependent variable (the dependent variable) is the stock price (Y).

Results and Discussion

Panel Data Regression Model Estimation

The best estimate of the panel data regression model is selected by performing the Chow test, Hausman test, and Lagrange multiplier test. This study ignores the Random Effect Model because, from the two previous tests, a Fixed Effect Model has been selected, so this journal only presents the results of the Chow test to choose whether the Fixed Effect Model (FEM) or the Common Effect Model (CEM) and the Hausman test to choose whether Fixed Effect Model (FEM) or Random Effect Model (REM) which is more precise as shown in Table 2 and Table 3.

Table 2
Chow Test Results

Effect Test	Statistics	df	Prob.
Cross-section F	19.896885	(9.35)	0.0000
Chi-square cross-sections	90.548208	9	0.0000

Source: Data processed by researchers using Eviews 10

It can be seen from the output results in table 2 shows that the probability value for cross-section F is 0.0000, which means this number is below the value of 0.05, which is a significant value, meaning that if the probability value (p-value) of the Cross section and Chi-Square is greater smaller than the value of $\alpha = 0.05$ then H_0: Common Effect Model is rejected. H_1 is accepted: Fixed Effect Model. So, the model selected from the panel data test between the Common Effect Model and Fixed Effect Model is the Fixed Effect Model.

Table 3
Hausman Test Results

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-sections	33.587278	6	0.0000

Source: Data processed by researchers using Eviews 10

From the results of the Hausman test above, it can be seen that the probability value (Prob) on the Chi-square shows the number 0.0000, which means that this number is below the value of 0.05, which is a significant value. This means that if the random cross section's probability value (p-value) is smaller than the value $\alpha = 0.05$, then H_0:

Random Effect Model is rejected, and H $_1$ received: Fixed Effect Model. So, the model chosen between the Random Effect Model and the Fixed Effect Model is the Fixed Effect Model.

Fixed Effect Model (FEM) Panel Data Regression Estimation

Based on the Chow and Hausman test results, the best model for this research is FEM. Thus, panel data regression is carried out according to the selected model. The estimation results can be seen in Table 4 as follows.

Table 4
Fixed Effect Model Panel Data Regression Results

Variables	coefficient	std. Error	t-Statistics	Prob.
C	2513.126	444.0276	5.659842	0.0000
CR	6.086620	1.421260	4.282552	0.0001
DER	-0.899170	0.266840	-3.369694	0.0011
ROE	10.01881	3.715914	2.696190	0.0082
ROA	3.841487	0.978374	3.926400	0.0002
EPS	1.443787	0.562791	2.565407	0.0115

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.859923	Mean dependent var	2496546
Adjusted R-squared	0.803892	SD dependent var	2008.393
SE of regression	889.3986	Akaike info criterion	16.66229
Sum squared residue	27686046	Schwarz criterion	17.23590
Likelihood logs	-401.5573	Hannan -Quinn criteria.	16.88073
F-statistics	15.34731	Durbin-Watson stat	1.938155
Prob (F-statistic)	0.000000		

Source: Data processed by researchers using Eviews 10

Based on the results of panel data regression analysis, probability values for:

1) Variable Current Ratio (CR), Debt to Equity Ratio (DER), Return on Equity (ROE), Return on Assets (ROA), and Earning Per Share (EPS) of 0.0001, 0.0011, 0.0082, 0.0002, and 0.0115 are smaller than the significant value of 0.05 or 5%. This means that the variables Current Ratio (CR), Debt to Equity Ratio (DER), Return on Equity (ROE), Return on Assets (ROA), and Earning Per Share (EPS) has a significant effect on stock prices in telecommunications sector companies listed on the IDX in the 2017-2021 period. From the results of panel data processing using FEM, a research equation model can be formed as follows:Share Price = 2513.1260 + 6.0866 CR – 0.8991 DER + 10.0188ROE + 3.8414 ROA + 1.4437 EPS + ε

Partial Test (t-test)

The t-test tests the effect of the independent variables on the dependent variable. If the probability < 0.05, $_{Ho\ is}$ rejected, and H $_{\alpha}$ is accepted, it can be concluded that the independent variable significantly affects the dependent variable and vice versa. Based on Table 4, it can be concluded as follows: The variables Current Ratio (CR), Debt to Equity Ratio (DER), Return on Equity (ROE), Return on Assets (ROA), and Earning Per Share (EPS) has a probability value of <0.05. Thus $_{Ho\ is}$ rejected, and H $_{\alpha\ is}$ accepted. That is, CR, DER, ROE, ROA, and EPS significantly affect stock prices.

Simultaneous Test (Test F)

Table 4 shows that the probability value (F- statistic) of 0.0000 <0.05 means that Ho is $_{rejected}$ and H $_{\alpha\ is}$ accepted. Thus, all independent variables together have a significant effect on the dependent variable. Variable Current Ratio

(CR), Debt to Equity Ratio (DER), Return on Equity (ROE), Return on Assets (ROA), and Earning Per Share (EPS) together have a significant effect on stock prices in listed telecommunications sector companies on the IDX in the 2017-2021 period.

Coefficient of Determination (R^2)

Based on Table 4, it can be concluded that the Adjusted R-squared is 0.8038 or 80%. This means that the ability of the independent variable (Current Ratio, Debt to Equity Ratio, Return on Equity, Return on Assets, and Earning Per Share) to explain the dependent variable (stock price) of 80%, the remaining 20% is explained by other variables outside the model (Verbeke et al., 2012; Andrianto & Mirza, 2016; Morck et al., 2000).

Effect of Current Ratio (CR) on Share Prices

The research results on the CR variable on stock prices show a probability value smaller than the significant value (0.05), namely 0.0001, with a coefficient value of 6.0866. This shows that the variable Current Ratio (CR) positively and significantly affects stock prices. This shows that the higher the Current Ratio (CR), the higher the company's stock price and vice versa. This follows the signal theory proposed by Jensen and Mecking, which was later developed by Brigham & Houston (2014). If information is a positive signal, investors will respond positively. Investors can positively react by purchasing the company's shares in large quantities. As a result of an increase in demand for the company's shares, the stock price will be higher, and the company's value will also increase. However, if investors give a negative signal, it indicates that investors' desire to invest is decreasing, which will affect the decline in company value (Brigham & Houston, 2014). The results of this study are in line with previous research conducted by Pratiwi et al. (2020); Sutapa (2018); Gunawan (2020); Megawati (2018); Banchuenvijit, (2016), showing the results that the Current Ratio (CR) has a positive and significant effect on stock prices.

Effect of Debt to Equity Ratio (DER) on Stock Prices

The research results on the DER variable on stock prices show a probability value smaller than the significant value (0.05), namely 0.0011, with a coefficient value of -0.8991. This shows that the Debt to Equity Ratio (DER) variable negatively and significantly affects stock prices. This means that the lower the DER will give investors a positive signal, which will impact increasing stock prices because investors think the company will be better at paying its long-term obligations so it does not interfere with its investment stock returns. Based on the signal theory proposed (Brigham & Houston, 2014), information on an increase in DER will be accepted by the market as a wrong signal which will provide negative input for investors to buy shares. This makes the demand for and stock prices decrease and vice versa. The higher the company's funding through debt, the higher the risk of bankruptcy. This will make investors more risk in investing in the company (Widayanti & Colline, 2017). The results of this study are in line with previous research conducted (Gayatri & Thamrin, 2020; Banchuenvijit, 2016); which showed that the results of the Debt to Equity Ratio (DER) had a negative and significant effect on stock prices.

Effect of Return on Equity (ROE) on Stock Prices

The research results on the ROE variable on stock prices show a probability value smaller than the significant value (0.05), 0.0082, with a coefficient value of 10.0188. This shows that the variable Return on Equity (ROE) positively and significantly affects stock prices. This means that the higher the ROE value, the higher the company's stock price, and vice versa. This is under the signal theory put forward by (Brigham & Houston, 2014), the market will receive information on increasing ROE as a good signal which will provide positive input for investors in making decisions. The decision to buy shares increases the demand for shares so that the price will rise. Conversely, information on a decrease in ROE will be received by the market as a wrong signal, providing negative input for investors to purchase shares. This causes the share demand to decrease, so the company's stock price will decrease. The results of this study are in line with previous research conducted by Oleyinka & Chadire (2021); Kurniawan (2020); Yudistira & Adiputra (2020); Aldini & Andarini (2017); Anggraeni et al. (2021); Amahalu et al. (2018), which shows the results that Return on Equity (ROE) has a positive and significant effect on stock prices.

Effect of Return on Assets (ROA) on Stock Prices

The research results on the ROA variable on stock prices show a probability value smaller than the significant value (0.05), namely 0.0002, with a coefficient value of 3.8414. This shows that the variable Return on Assets (ROA) positively and significantly affects stock prices. This means that the higher the value of ROA, the higher the company's stock price, and vice versa. If the lower the value of ROA, the lower, the company's stock price. This is to the signal theory put forward by Brigham & Houston (2014). Information on increasing ROA reflects good management performance that the market will receive as a good signal that will provide positive input for investors in making decisions to buy shares. This increases the demand for a stock, so the price will rise and vice versa. The results of this study are in line with previous research conducted by Anggraeni et al. (2021); Najib & Triyonowati (2017); Yudistira & Adiputra (2020); Aldini & Andarini (2017), which shows the results that Return on Assets (ROA) has a positive and significant effect on stock prices.

Effect of Earning Per Share (EPS) on Stock Prices

The research results on the EPS variable on stock prices show a probability value smaller than the significant value (0.05), namely 0.0115, with a coefficient value of 1.4437. This shows that the Earning Per Share (EPS) variable positively and significantly affects stock prices (Lakonishok et al., 1992; Sugosha & Artini, 2020; Putra & Sedana, 2019). This means that the higher the EPS value, the higher the company's stock price, and vice versa. Based on the signal theory put forward by Brigham & Houston (2014), information on an increase in EPS means that it reflects good management performance and will be accepted by the market as a good signal that will provide positive input for investors in making decisions to buy shares. This increases the demand for shares, so the share price will rise and vice versa. The results of this study are in line with previous research conducted by Luckieta et al. (2020); Goyal & Gupta (2019); Yusena et al. (2019); Ircham et al. (2014); Chowdhury et al. (2019), which shows the results that Earning per share (EPS) has a positive and significant effect on stock prices.

Conclusion

The results showed that the variable financial ratios proxied by Current Ratio (CR), Return on Equity (ROE), Return on Assets (ROA), and Earning Per Share (EPS) had a positive and significant effect on stock prices. The financial ratio variable proxied by the Debt to Equity Ratio (DER) has a negative and significant effect on stock prices.

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