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THE ROLE OF RETURN ON EQUITY, DEBT TO EQUITY RATIO AND CURRENT RATIO IN REVEALING THE STOCK PRICES (THIS RESEARCH ON TELECOMMUNICATION SUB SECTOR COMPANIES WHICH HAVE BEEN LISTED ON THE INDONESIA STOCK EXCHANGE 2012-2019)

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Abstract: This research has purposes to discover and examine the impact which causing from return on equity (ROE), debt to equity ratio (DER) and current ratio (CR) against stock prices in sub-sector telecommunications companies which have been registered on the IDX during period of 2012 - 2019. This research currently uses a quantitative method with sampling technique used was purposive sampling technique during the research period so the samples used were EXCEL, FREN, ISAT and TLKM. The research data used was secondary data through multiple linear regression analysis method. The results had shown that 1) ROE had a positive and significant impact on stock prices; 2) DER had no impact on stock prices; 3) CR had a positive and significant impact on stock prices; and 4) ROE, DER, and CR had simultaneously impact on stock prices.

Keywords: *Return on Equity, Debt to Equity Ratio, Current Ratio, Stock Price.*

INTRODUCTION

Indonesia sees the capital market has a fundamental role in the economy. The government seeks to increase the investment literacy by formulating those various policies to increase public knowledge and interest relates to capital markets and investment. Now, the capital market has significant developments which could be seen from various aspects, starting from the increasing number of issuers from time to time until the trading volume (Prasetyo, 2013:1).

The telecommunications sub-sector is one of the sectors that have been listed on the IDX. In 2015-2020, this industrial sector under the Ministry of Communication and Information Technology was contributed as the most significant state revenue compared to 5 other government agencies.

Table 1. The PNPB from Six Large Ministries/Agencies in 2019 (Trillion Rupiah)

No.	Ministry/Agency	2015	2016	2017	2018	Outlook 2019	DSB 2020
1	Ministry of Communication and Informatics	14.7	14.9	17.8	17.7	16.5	17.5
2	Ministry of Transportation	3.8	5.6	6.0	6.8	7.1	7.3
3	Indonesian National Police	3.8	4.7	10.2	9.7	10.0	10.4
4	State Minister for Research and Technology	1.8	3.6	3.7	3.1	2.7	2.3
5	Ministry of Justice and Human Rights	4.2	3.4	3.2	3.6	3.6	3.5
6	Ministry of Agrarian Affairs and Spatial Planning/BPN	2.1	2.1	2.3	2.2	2.4	2.4

This is not illogical because Indonesia is a country which has the most cellphone or mobile phone users in the world, even in 2020 it was experienced an increase in users by 25 million people or around 17% in 2019. For this reason, Indonesia has the opportunity to enhance its telecommunication market that could be able to compete with other countries. The income earned by the company would determine the size of the stock price of a company. The high of stock price will always raise an optimistic act towards the investors to funds.

Before funding the money, the investors need to look at the technical analysis and fundamental analysis. Because by looking at these two analyze, investors could reduce the risk of failure when make the investments which will leads the investors gain high profits in the future. Fundamental analysis could be categorized as an approaches that emphasizes those overall performance (Sutrisno 2017: 309). Thus, the financial ratio analysis is needed to ensure if the company's performance is in good condition.

According to the data which the authors obtained, it was found that there had a fluctuating phenomenon and inconsistency which shown on ROE, CR, and ROE in several telecommunication companies such as EXCL, FREN, ISAT and TLKM during these period research of 2012-2019, so the further research was needed. Therefore, the authors was created the title of this research which is: "The role of Return on Equity, Debt to Equity Ratio and Current Ratio in revealing the Stock Prices (This research on Telecommunication Sub Sector Companies which have been Listed on the Indonesia Stock Exchange 2012-2019)".

THEORETICAL REVIEW

Return on Equity (ROE)

Return on Equity (ROE) could be defined as a measuring tool that used to calculate net profit after tax and capital itself (Kasmir, 2013:204). ROE as a measuring tool which is very useful to measuring the capability of a company to optimize the profits of each company (Sartono, 2011:124). ROE could be used also as an analysis to the effect of resources on the company's return on equity (Fahmi, 2012: 98). Tandelilin (2010: 373) described that there are

3 (three) factors which could influence ROE, namely profit margin, total asset turnover and debt ratio.

Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER) is defined as a measuring tool or ratio that used to measure debt to equity (Kasmir, 2015:157). The higher the value of DER, the less amount of own capital compared to the debt owned by the company (Sutrisno, 2012:218). Kuswadi (2005:96-97) said if the DER has two basic components, which is debt and equity.

Current Ratio (CR)

Weygandt & Kieso (2013:397) described that Current Ratio as a measuring tool which used widely to evaluate liquidity in a company and measure the company's ability to pay off its short-term obligations (short-term debt). Sutrisno (2017:222) stated that Current Ratio as a financial ratio in which the measurement was carried out by comparing the current assets of the company with short-term debt. The higher the Current Ratio, the better the current asset management of the company, so the company would be able to pay off all its debts.

Stock Prices

Darmadji & Fakhruddin (2012:102) said that the stock price is a price which revealed in a time frame who fluctuates fast due to the demand and supply that occurred on the market. Meanwhile, Jogiyanto (2010:143) defines the stock prices as the amount of value which discovered by the market in the stock exchange or in a certain time. Stock price indicators could be seen through the value of its stock prices (Azis, 2015: 85).

Previous Research

Ashari (2017) found that there has simultaneously positive and significant impact which occurs between ROA and ROE towards stock prices. Suharno (2016) who found that ROA, TATO and PER had a significant impact on stock prices, while DER and CR had none. Ponggohong (2016) defined that CR, TATO, DER, DAR, ROA and ROE had simultaneously impact on stock prices. There has only the CR, ROA and ROE variables which had a Partial impact on stock prices. Meanwhile, TATO, DER and DAR variables had none impact towards stock prices. Husna (2016) described that ROA, DER, PER, and EPS simultaneously affects the stock prices. While ROA, DER had Partially but not significant impact towards stock prices. Ratnaningtyas (2021) found that ROE, CR, and DER had partial and simultaneous impact on stock prices.

Theoretical Framework and Hypothesis

Drawn from the theoretical review and those previous research which has been described, the theoretical framework that could be convey in this research as follows:

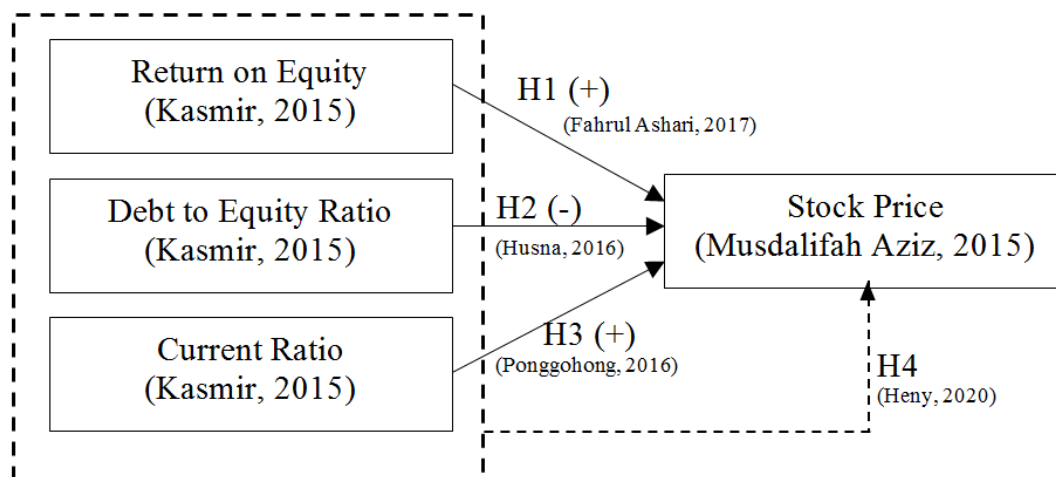


Figure 2. Theoretical Framework

The hypothesis in this research are 1) ROE has a positive and significant impact on stock prices; 2) DER has a negative and significant impact on stock prices; 3) CR has a positive and significant impact on stock prices; 4) ROE, CR, and DER simultaneously affects the stock prices.

RESEARCH METHODS

The type of research that uses was quantitative method with descriptive and associative approach to examines the theories, develop and build facts, correlate between variables, describe the results of statistical descriptions, and also predict the research results. However The variables which studied and the variables which measured in this research could be said as follows:

$$\text{ROE} = \frac{\text{Earning After Interest and Tax}}{\text{Equity}} \dots\dots\dots (1)$$

$$\text{DER} = \frac{\text{Debt}}{\text{Equity}} \times 100\% \dots\dots\dots (2)$$

$$\text{CR} = \frac{\text{Current Asset}}{\text{Current Debt}} \dots\dots\dots (3)$$

$$\text{Stock Price} = \text{Closing Price} \dots\dots\dots (4)$$

The research population was 6 companies that listed on the Indonesia Stock Exchange from 2012 to 2019, which consist of Bakrie Telecom Tbk (BTCL), XL Axiata (EXCL), Smartfren Tbk (FREN), Innovation Infracom Tbk (INVS) , Indosat Tbk (ISAT) and Telekomunikasi Indonesia Tbk (TLKM). The sampling technique used in this research was purposive sampling technique with the following criteria as follows: 1) Telecommunication companies which listed on the Indonesia Stock Exchange during the period of the research year; 2) Telecommunication companies that issue quarterly financial reports during the

research year; and 3) Telecommunication companies which have been completed the variable data required during the research year. According to these criteria, the sample in this research were consisted of 4 telecommunications companies, namely EXCEL, FREN, ISAT, TLKM. The data collection method of this research were carried out by the documentation method through collecting all secondary data relates to telecommunications companies which listed on the Indonesia Stock Exchange during period of 2012 to 2019. The data analysis method used was multiple linear regression analysis through classical assumption tests and hypothesis.

RESULT AND DISCUSSION

Descriptive Statistics

According to the descriptive statistical analysis result on ROE, DER, CR and stock prices, it could be interpreted that:

- 1) ROE had minimum value of -83.09 and maximum value of 29.16, with an average of -3.4441 and standard deviation of 24,80931. This indicates that the data deviation on ROE variable could be said as unfavorable.
- 2) DER had minimum value of 0.64 and maximum value of 4.20, with an average value of 1.9859 and total standard deviation of 1.05313. This shown that the data deviation on DER variable could be said as unfavorable.
- 3) CR had minimum value of 0.28 and maximum value of 1.35, with an average number of 0.6309 and standard deviation of 0.31406. This shown if the databdeviation on CR variable could be said as good.
- 4) Stock price had the lowest value with total of 50 and the highest value of 6600, with an total average of 2923.22 and standard deviation of 2072,582. This shown that the data deviation on the stock price variable can be said as good.

Data Validity Test

The results from the normality test shown that the Asymp. Sig (2-tailed) was 0.200 and above the significant value (0.05), so the residual variables were normally distributed and could be tested further as classical assumptions.

Table 2. Data Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		32
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	1355.02404957
Most Extreme Differences	Absolute	.115
	Positive	.115
	Negative	-.077
Test Statistic		.115
Asymp. Sig. (2-tailed)		.200

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

The multicollinearity test results shows that the tolerance value on the variables of ROE, DER and CR > 0.100 with the VIF value < 10.00, so it could be said that there is no multicollinearity symptom occurs.

Table 3. Multicollinearity Test Results

		Coefficients ^a	
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	ROE	.435	2.299
	DER	.585	1.710
	CR	.473	2.116

a. Dependent Variable: Stock Price

The results of the heteroscedasticity test shows if the dots spread randomly, the distribution of these points was above or below the number 0 on the Y axis. This indicates that there are no symptoms of heteroscedasticity occurs in these regression model, so it could be concluded that the regression model is feasible to predict the Stock price according to the input of the independent variables ROE, DER, and CR.

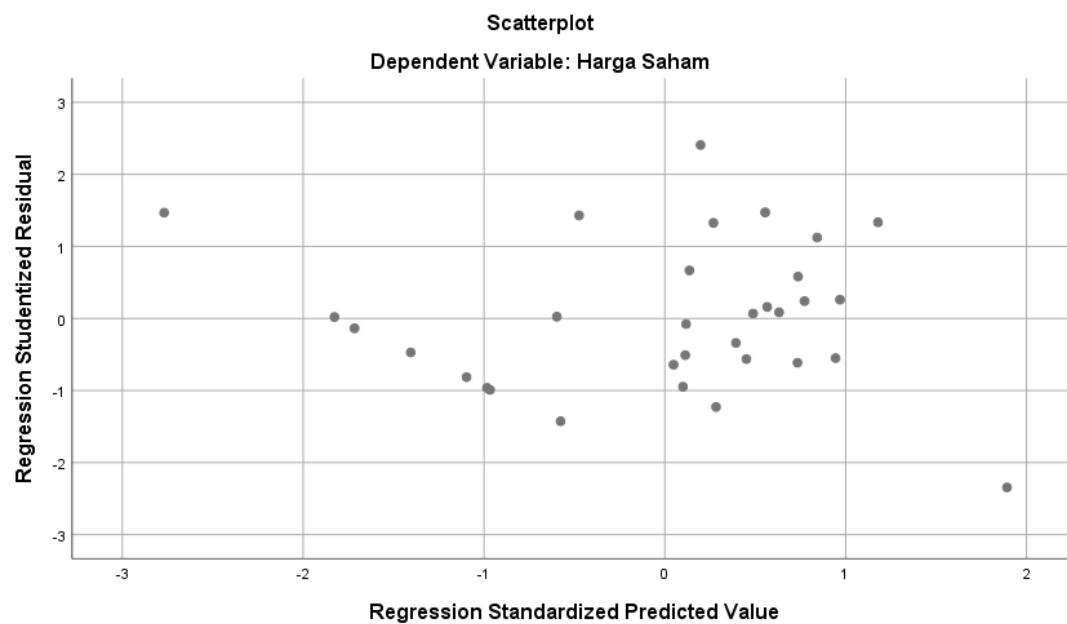


Figure 2. Heteroscedasticity Test Results

Hypothesis Test

According to the test results of multiple linear regression analysis, the regression model of this research could be formulated as follows:

$$Y = 1724.527 + 85.468x_1 + 1012.746x_2 + -821.317x_3 + e \dots\dots\dots (5)$$

Table 4. Multiple Linear Regression Analysis Results
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1724.527	1128.830		1.528	.138
ROE	85.468	15.649	1.023	5.462	.000
DER	1012.746	317.978	.515	3.185	.004
CR	-821.317	1185.995	-.124	-.693	.494

a. Dependent Variable: Stock Price

- 1) The examined on the ROE variable shows that the t-count was 5.462, so t-count > t-table (5.462 > 2.048) with significance of 0.00 < 0.05, then H₀ was rejected and H_a

was accepted, In other word it means that there is a positive and significant impact which occurs between ROE and stock prices.

- 2) The examined on the DER variable shows that the t-count was -0.693, so that t-count > t-table (-0.693 < 2.048) with significance of 0.494 > 0.05, then H₀ was accepted and H_a was rejected, Which means that there is none positive and significant impact between DER and stock prices.
- 3) The examined on the CR variable shows that the t-count value was 3.185, so t-count > t-table (3.185 > 2.048) with significance of 0.004 < 0.05, then H₀ was rejected and H_a was accepted, which means that there is a significant impact occurs between CR and stock prices.
- 4) The Simultaneous tested shows that the value of F-count was 12.502 > F-table 2.92 then the H₀ could be said rejected and H_a was accepted, with significance of 0.00 < 0.05 (set), so it could be said if there is a simultaneously and significant impact which occurs between these variables of ROE, DER and CR on stock prices. with an effect value of 52.7% (Adjusted R²).

Table 5. F-Test Results
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	76244652.047	3	25414884.016	12.502	.000 ^b
	Residual	56918795.422	28	2032814.122		
	Total	133163447.469	31			

- a. Dependent Variable: Stock Price
- b. Predictors: (Constant), CR, DER, ROE

Table 6. The Determination Coefficient Test Results
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.757 ^a	.573	.527	1425.768	1.034

- a. Predictors: (Constant), CR, DER, ROE
- b. Dependent Variable: Stock Price

Discussion

Hypothesis test results show that ROE had a positive and significant impact on stock prices. This means that if the ROE value is higher, then a company would be considered as capable in making efficiency in order to generate profits from each unit of equity. The high ROE value in a company, surely, will increase the interest of investors in making decisions in

funding the money on that company, this is because the ROE value has shown that the company has a good performance. As a result of the high ROE value on the company, its stock price would be increase aswell. Kasmir (2015) said that the return on equity or ROE is a ratio which useful to measure the net profit after tax with own capital. This ratio was illustrates the level of efficiency in the use of own capital, the higher the ratio, the better, because it could be interpreted that the position of the owner of the company is getting stronger and conversely. These results are in line with previous research which conducted by Ashari (2017) which state that there is a positive and significant impact which occurs between ROE and stock prices.

Hypothesis test results was indicate if there is no significant positive impact between DER on stock prices. Sartono (2010) defined that a high debt to equity ratio will also increase the risk faced, besides that investors will increase the level of profit demanded aswell. A high of DER was indicates a low level of the proportion of their own capital then a low to fund assets. In this context, investors in the capital market will respond negatively. This means that the higher the DER of a company will results in a lower company's stock price , this cause of reduction in the company's profitability which occurs by a higher cost of debt. The company's profit which has decreased will certainly result in a decrease of investor demand for the stock price, which then will result in a decrease on prices. This result was in accordance with the research conducted by Husna (2016) who described that DER variable had partially and did not have a significant impact on stock prices.

Hypothesis test results show that CR had a positive and significant impact on stock prices. The level of CR will affect the decrease or increase in stock prices. The low CR will result in a decrease in market price from its stock price. However, a too high CR were also not necessarily good, because in certain conditions it shows that there are a lot of avail funds on the company (relatively little activity) which turn in result of a reduction in the company's ability. What can causing a high CR is the existence of uncollectible accounts and unsold inventories, that surely cannot be used to pay the debts quickly. This result was in line with previous research which conducted by Ponggohong (2016) who found that CR variable had an impact on the stock prices.

Hypothesis test results show that ROE, DER and CR simultaneously affects the stock prices. The ROE affects stock prices, the higher the ROE in a company, the higher the stock price would be. Meanwhile, the higher the DER of a company will results in a lower stock price in the company, this due to the decrease in profitability of the company which leads by the higher cost of debt. The level of CR would affect the decline or increase in stock prices. The low CR will result in a decrease on market price from its stock price. These results were in line with previous research by Ratnaningtyas (2021) through the panel data regression method who found that ROE, DER and CR simultaneously affects the stock prices.

CONCLUSION AND SUGGESTION

Conclusion

Elicited from the results of data analysis and discussion which has been described above, it could be concluded that:

- 1) ROE had a positive and significant impact towards stock prices.
- 2) DER had no impact towards share prices.
- 3) CR had a positive and significant impact towards stock prices.
- 4) ROE, DER and CR had a simultaneous impact towards stock prices.

Suggestion and Recommendation

According to the research findings which has been done, here is some of suggestions that the researchers could recommended relates to the research, namely:

- 1) For researchers who does similar topic, it is advisable to conduct in-depth research by including other independent variables, such as ROA, EPS, DAR, NPM and so on.
- 2) As for future researchers, it is better to take a longer period so the research sample is larger and more extensive.
- 3) For investors, the results from this research could be used as a reference in making decisions to invest in companies that listed on the Indonesia Stock Exchange (IDX).

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