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Determinants of Stock Price : Fundamental Analysis on LQ45 Index Companies in Indonesia

Hana Fauziah[1], Esa Lisa Pebrian[2], Nurhana Dhea Parlina[3*]

[1,2,3]*University of Swadaya Gunung Jati, Cirebon, Indonesia*

**Corresponding author email: nurhanadp@ugj.ac.id*

Abstract

The primary objective of this reserach was to examine the essential internal factors that affect stock prices by utilizing Return on Equity (ROE) and Dividend Payout Ratio (DPR) as independent variables, while Price to Book Value (PBV) was considered as an intervening variable. The focus of the study was on companies listed in the LQ45 index on the Indonesia Stock Exchange from 2018 to 2022. The data was analyzed using panel data regression through the REM, with support from *Eviews 12* software. Path analysis was also employed to test hypotheses and gain deeper insights. The research findings indicate that only ROE significantly affects stock prices both directly and indirectly, while DPR doesn't have a significant influence on the fluctuations of stock prices. Additionally, PBV cannot mediate the effect of ROE and DPR on stock prices. This suggests that other factors can affect stock prices in the Indonesian capital market. It is crucial to consider a representative sample of companies and additional variables to gain deeper insight into the factors leading to share prices.

Keywords: Profitability; Dividend Policy; Corporate Value; Stock Prices

1. Introduction

The global economy has an indirect impact on a country's economy. After the COVID-19 pandemic, the global economy was threatened with a recession, which caused instability in the Indonesian stock exchange portfolio. The capital market is a financial company that manages public and state investment assets. The degree of fund mobility in the capital market determines how much an investor contributes to a given nation (Alam et al., 2020). Furthermore, the capital market is the most alluring location for long-term investments. When the price of shares falls, investors can purchase them and then sell them back when the price rises. To monitor the price movements of their stock portfolios, investors commonly refer to the JCI (Jakarta Composite Index) or a metric that measures the performance of stocks on the IDX (Indonesia Stock Exchange) (Danardono, 2016). In addition to the JCI, investors also use the LQ45 index as a reference to monitor stock performance.

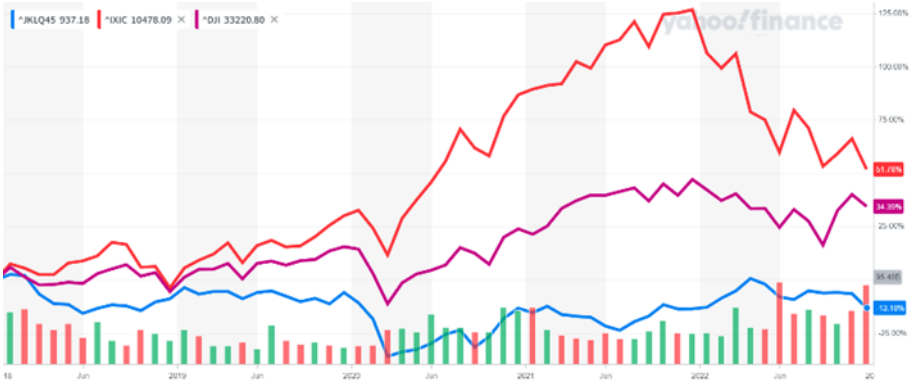

Figure 1. Comparison of Stock Index Movement
Source : www.yahoofinance.com

The LQ45 index comprises 45 issuers with high liquidity and growth potential in Indonesia. The index experienced a decline in stock prices in mid-2020 and has been unstable since 2021. This situation was not limited to the LQ45

index alone, as foreign stock indices such as the Nasdaq (IXIC) and the Dow Jones Industrial Average (DJI) also experienced similar fluctuations.

Although each index's value and fluctuations differ, it is evident from Figure 1 that the three indices exhibit comparatively similar movement patterns. By the end of the first quarter of 2020, the closing values of the three stock indices had compactly collapsed, according to data from www.yahoofinance.com. At its lowest, the Dow Jones index (purple line) was 19,898, the LQ45 index (blue line) was 4,105, and the Nasdaq index (red line) was 6,860. The stock index saw a considerable drop in a short period, which suggested that investors were losing trust in the prospects for economic expansion and the performance of companies listed on the stock exchange.

(Oktavia & Nugraha, 2018) Have found that internal factors are crucial in influencing stock prices. These factors include fundamental aspects such as dividend distribution and strategy changes during shareholder meetings, which are critical information for stock exchange investors. Investors must analyze these fundamental factors to forecast future stock prices.

Reduced company productivity in generating profits can lead to non-optimal profits, resulting in decreased stock prices. According to (Natalie & Lisiantara, 2022), companies with high profits are often more attractive to investors because they indicate strong performance and the company's ability to manage capital effectively and generate optimal profits. This may make investors more likely to invest in the business, raising stock prices and boosting the company's total worth (Hazmi et al., 2024). Similarly, (Latifah & Suryani, 2020) found a significant positive correlation between profitability and stock price. However, (Utami & Darmawan, 2019) research shows that profitability and stock price do not have a relevant correlation.

The DPR approximates a company's dividend policy. According to (Carlo, 2014), an increase in dividend value can boost stock prices by increasing demand for stocks. Meanwhile, (Narayanti & Gayatri, 2020), present a similar view, stating that dividend policy has a positive effect on stock value. However, (Mariana, 2016) found no correlation between dividend policy and stock value. High profitability and the level of dividends distributed by a company can attract investors, affecting the company's value.

The value of a company can be determined by comparing its stock prices through the PBV ratio. By increasing corporate value, a company can increase investor profits and optimize shareholder wealth, which is crucial for the company's growth (Keown, 2004). Optimizing corporate value is crucial for a company because it indicates efforts to increase investor profits. Increasing corporate value can be said to increase the well-being of investors, who are the company's primary target (Jusriani & Shiddiq, 2013). This results in an increase in stock prices that align with the company's value growth as perceived by investors. ROE and DPR variables affect increasing corporate values, which then affect the increase in stock prices. Therefore, the company's value is taken as a mediating variable.

2. Literature Review

2. 1 Signaling Theory

The significance of the information released by the company lies in its ability to influence the investment decisions made by non-company entities. To sustain the company's existence and impact on the company, information essentially transmits information, notes, or descriptions for past, present, and future circumstances. This makes the information crucial for investors and businesspeople. (Spence, 1973) First, the signalling theory is put forth, wherein the transmitter of the information attempts to convey information that the recipient may use by sending a signal. After that, the party getting the information will modify its actions according to how it interprets the signal or signals sent.

Management's efforts to evaluate a company's potential are important signals for investors (Brigham & Houston, 2014). These signals demonstrate the strategies adopted by the company to achieve the objectives of its owners. They help investors make informed decisions. Companies communicate their financial performance through stock prices and financial reports. Investors analyze these signals, which can be either positive or negative. Positive signals generate interest in investing (Marridhani & Amanah, 2020).

2. 2 Fundamental Analysis

A method for estimating a stock's intrinsic value is called fundamental analysis, and it involves looking at several variables about the financial health and performance of the firm that is issuing the shares. The market analysis process in fundamental analysis uses publicly available data or information (Gumanti & Utami, 2002). This process involves gathering and analyzing information from financial statements, such as profits, dividend payments, sales, equity, and other factors that are essential to fundamental analysis. Fundamental analysis aims to determine whether the current stock price accurately reflects the company's overall financial health (Artha et al., 2014). (Fama in Qadri & Murwaningsari, 2023) The strong form includes a wide variety of data, including market, historical, and private information that is only available to a limited number of people, including creditors, boards of directors, and business management. It is a useful tool that can provide recommendations for the optimal time to buy or sell stocks.

2. 3 Stock Price

The stock price is the value that investors or other parties perceive as compensation for owning ownership rights in a company. It also serves as a benchmark for trading in the capital market. Stock prices are determined by supply and demand in the stock exchange. If demand exceeds supply, stock prices will rise, and if supply exceeds demand, they will fall (Kurnia, 2019).

2. 4 Return On Equity (ROE)

ROE is a significant parameter that helps assess how effectively a corporation generates profits with the resources at its disposal, indicating how efficiently operations are carried out in general business operations (A. A. Putri et al., 2024). It is also a measure of management's ability to generate profits for the shareholders. It is essential to consider a company's performance and growth prospects concerning ROE (Maulana, 2017). They can infer that an ROE increase indicates a rise in the company's net profit. High-profit earnings send a positive signal to investors that the company is in good condition. By increasing ROE, companies can allocate more funds for investment or reduce debt, which can increase the company's overall value. As stock prices increase, companies can achieve sustainable growth and maximize profits.

2. 5 Dividen Payout Ratio (DPR)

When a company earns a profit, a portion of that profit is distributed to its shareholders as cash dividends, which are calculated based on a company policy known as the Dividend Payout Ratio (DPR) (Deitiana, 2013). By paying stable dividends, companies can build trust among investors, which in turn increases the company's value. When investors perceive a company as valuable, its stock price tends to rise. Conversely, if the DPR is low, investors may lose interest in investing, which can cause the company's stock price to drop. Therefore, it is important for companies to optimize their dividend payments to maintain investor interest and increase the corporate value.

2. 6 Price to Book Value (PBV)

The PBV ratio is a useful tool to compare a company's stock price and book value. This ratio also indicates the market's valuation of a company's share price compared to its equity's book value (Suryantini & Arsawan, 2014). A high PBV value reflects investor confidence in a company's prospects and performance. PBV is useful in determining how well the market values a company's assets when compared to the book value listed in its financial statements.

2. 7 Reserach Model

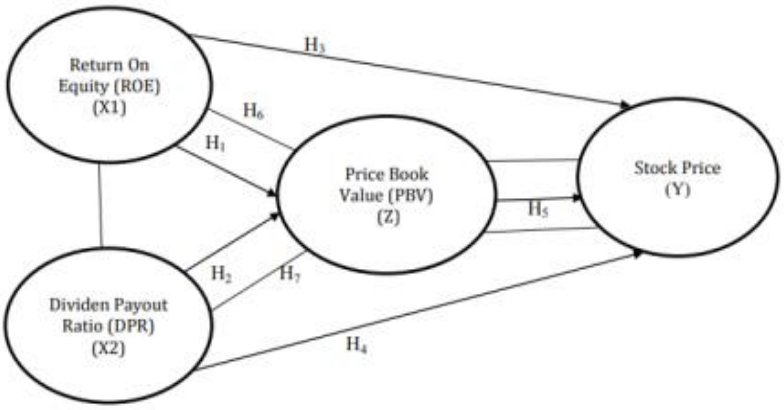

Figure 2. Research Framework

H_1: ROE significantly affects PBV.
H_2 : DPR significantly affects PBV.
H_3 : PBV significantly affects stock prices.
H_4 : Stock prices are significantly impacted by ROE.
H_5 : Stock prices are significantly impacted by DPR.
H_6 : PBV can mediate ROE's effect on stock prices.
H_7 : PBV can mediate DPR's effect on stock prices.

3. Materials and Methods

3.1. Materials

This study collected financial report data for LQ45 companies listed on the Indonesia Stock Exchange between 2018 and 2022 using panel data sourced from www.idx.com. Additionally, the closing stock prices from 2018 to 2022 was acquired from www.yahoofinance.com. This study employed a causal associative method, which is a quantitative approach involving data collection (Nikolaus, 2019). Causal associative research aims to determine and explain the relationship between two or more variables that influence and are influenced by each other (Sugiyono, 2019). Purposive sampling, a methodology where the sample is selected based on specified qualifications and regarded relevant, serves as how the sample used in this study was determined (Sugiyono, 2015). The following are the qualifications for sample selection applied:

Tabel 1. Criteria for Sample Selection in the Study

Criteria	Number
Total population of LQ45 companies	72
LQ45 companies not consistently listed during the period 2018-2022	(50)
LQ45 companies consistently distribute dividends every year during the period 2018-2022	(22)
Total number of sample companies	17
Total number of research samples over 5 years of observation	85

3.2. Methods

In the process of estimating panel data, three different model approaches were considered: CEM, FEM, and REM (Madany et al., 2022) Various tests, such as Chow, Hausman, and Lagrange multipliers, are utilized to determine the best model for panel data. In addition, when conducting regression tests with intervening variables, path analysis using Eviews 12 and the Sobel test was utilized, which was conducted through https://quantpsy.org/sobel/sobel.htm. The researchers focused on developing regression models and hypothesis testing to analyze the data, without relying on classical assumption tests, which could potentially lead to biased data. This approach was also adopted by (Gujarati, 2012) in regressing panel data.

3.2.1. Operational Definition and Variable Measurement

Operational variables are a useful tool for guiding the observation and measurement of a particular concept or variable to conduct comprehensive testing. In research, information about the operational description of variables, indicators, and the scale or measurement used can be presented in a table format that provides such data (Rifkhan, 2023).

Tabel 2. Operational Variables

Variable	Indicator	Measurement	Scale
Profitabiliy	ROE	Earning After Tax/Total Equity	Ratio
Dividend Policy	DPR	Dividen Per Share/Earning Per Share	Ratio
Corporate Value	PBV	Closing Price/NBVS	Ratio
Stock Price	Stock Price	LN Closing Price at end of year period	Nominal

Tabel 3. Companies Included in the Research Sample

No	Companies	Code
1	Adaro Energy Tbk.	ADRO
2	Aneka Tambang Tbk.	ANTM
3	Astra International Tbk.	ASII
4	Bank Central Asia Tbk.	BBCA
5	Bank Negara Indonesia (Persero) Tbk.	BBNI
6	Bank Rakyat Indonesia (Persero) Tbk.	BBRI
7	Bank Mandiri (Persero) Tbk.	BMRI
8	H.M. Sampoerna Tbk.	HMSP
9	Indofood CBP Sukses Makmur Tbk.	ICBP
10	Indofood Sukses Makmur Tbk.	INDF

No	Companies	Code
11	Indocement Tunggal Prakarsa Tbk.	INTP
12	Kalbe Farma Tbk.	KLBF
13	Perusahaan Gas Negara Tbk.	PGAS
14	Bukit Asam Tbk.	PTBA
15	Telkom Indonesia (Persero) Tbk.	TLKM
16	United Tractors Tbk.	UNTR
17	Unilever Indonesia Tbk.	UNVR

3.2.2. Formula / Equation

In path analysis, hypothesis testing was conducted one by one using 2 regression equation models to test direct and indirect effects (Basuki & Prawoto, 2019):

$$z = a + \beta_1 X_1 + \beta_2 X_2 \quad (1)$$

$$y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z \quad (2)$$

4. Results and Discussion

4.1 Result

4.1.1. Model Selection

Tabel 4. Chow Test Result

Effect Test	Statistic	d.f	Prob.
Cross-section F	54.061908	(16.65)	0.0000

According to Table 3, the Chow test indicates a chance value of 0.0000 or less than 0.05. This suggests the panel data Fixed Effects Model (FEM) is the most appropriate for the regression analysis.

Tabel 5. Haussman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	6.187559	3	0.1028

However, the Hausman test shows a likelihood value of 0.1028 or greater than 0.05. This indicates that the Random Effects Model (REM) is a better option.

Tabel 6. Lagrange Multiplier Test Result

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.0000	0.1202	0.0000

To confirm this, a Lagrange multiplier test is conducted, resulting in a Breusch-Pagan value of 0.0000 or less than 0.05. As a result, it was decided that the REM is the most suitable model for the panel data regression analysis.

4.1.2. Regression Substructure Test 1

Table 7. Results of Hypothesis Test Equation 1

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	-1.927956	0.816347	-2.361685	0.0206
ROE	23.92296	1.838658	13.01110	0.0000
DPR	0.929461	0.658125	1.412287	0.1616
R. Squared	0.705386			
Adjusted R-squared	0.698201			

Table 7 presents the probability value for ROE, which is 0.000. This value is below the significance level of 0.05. This suggests that a noteworthy correlation exists between ROE and PBV, thereby providing support for H1. On the other hand, the probability value of DPR is 0.1616, which is above the relevance level of 0.05. Therefore, it can be concluded that DPR has no discernible effect on PBV, leading to the rejection of H2.

According to the R-square value, there is a strong correlation between ROE and DPR in predicting PBV. These two variables can account for approximately 70.5% of the variance observed in PBV, indicating a strong relationship between the two. However, it is important to note that the remaining 29.5% of the variation may be due to other factors not included in the model. The F-test value is 0.000, which is below the 0.05 level of significance, indicating that the collective impact of ROE and DPR on PBV is statistically significant and not just a coincidence.

4.1.3. Regression Substructure Test 2

Table 8. Results of Hypothesis Test Equation 2

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	8.016417	0.226246	35.43227	0.0000
ROE	1.608258	0.415204	3.873412	0.0002
DPR	0.032197	0.038397	0.838522	0.4042
PBV	-0.006023	0.006061	-0.993742	0.3233
R. Squared	0.154890			
Adjusted R-squared	0.123590			
Prob (F.Statistic)	0.003322			

The findings presented in Table 8 reveal that the PBV variable does not have a statistically significant impact on stock prices. This conclusion is drawn based on the probability value of the PBV variable, which is 0.3233, exceeding the acceptable threshold of 0.05 (H3 is rejected). However, the data show that the ROE variable significantly affects stock prices, as evidenced by its probability value of 0.0002, which is less than 0.05 (H4 is accepted). Similarly, the significance value of the DPR variable is 0.4042, which is higher than 0.05, suggesting that DPR does not have a significant effect on stock prices (H5 is rejected).

The obtained R-square value is 0.15489, indicating that the ROE, DPR, and PBV variables together explain about 15.4% of the variation in stock prices. It should be emphasized that factors other than those considered in this model could account for as much as 84.6% of the other variability. Additionally, the F-test results have a probability value of 0.0033 or less than 0.05. This implies that stock prices are influenced simultaneously by the ROE, DPR, and PBV variables combined.

4.1.4. Sobel Test

4.1.4.1. The Effect of ROE on Stock Prices through PBV

Table 9. Sobel Test Results of ROE Variables on Stock Prices Through PBV

Input			Test Statistic	Std.Error	p-value
a	23.92296	Sobel test	-0.9908447	0.14541935	0.32176142
b	-0.006023	Aroian test	-0.98794793	0.14584573	0.32317815
Sa	1.838658	Goodman test	-0.8837671	0.14499171	0.320336627
Sb	0.006061				

The Sobel test results show that the p-value is 0.3217, over the significance level of 0.05. Furthermore, the value of the Sobel Test Statistic, -0.9908, shows that PBV does not mediate the relationship between ROE and stock price. Conversely, it implies that ROE is not a reliable indicator of stock price.

4.1.4.2. The Effect of DPR on Stock Prices through PBV

Table 10. Sobel Test Results of DPR Variables on Share Price through PBV

Input			Test Statistic	Std.Error	p-value
a	0.929461	Sobel test	-0.8127064	0.00688827	0.41638641
b	-0.006023	Aroian test	-0.7032955	0.00795987	0.48187161
Sa	0.658125	Goodman test	-0.99685898	0.00561578	0.31883296
Sb	0.006061				

The statistical analysis revealed p-values of 0.4163, which is above the significance level of 0.05. Additionally, it was determined that the Sobel test statistic score was -0.8127. These findings imply that either the PBV ratio is unable to mediate the impact of DPR on stock prices, or DPR has no discernible effect on stock prices.

4.2 Discussions

4.2.1. ROE significantly affects PBV

The significant effect of ROE on PBV indicates that investors consider ROE to be one of the critical factors in assessing the company. Companies with high ROE are deemed to have good performance in generating profits from their capital, so investors tend to value the company's shares more (Hendrianto, 2022). This result differs from (Rahman et al., 2022), who found that ROE has no significant effect on PBV. However, previous research conducted by (Will & Simorangkir, 2016) found that ROE positively affects PBV. The higher the ROE, the better the company's revenue (profit) from its capital. This makes investors interested in buying the company's shares, increasing demand and stock prices. As a result, the PBV ratio, which is the ratio of stock price to book value per share, also tends to increase.

4.2.2. DPR significantly affects PBV

It shows that investors do not primarily base their prediction of a business's share price on the amount of dividends paid to shareholders, nor does the company significantly impact the valuation of the share price relative to its book value. Though there are other findings, such as researchers (Jakataofik et al., 2023) who question whether there is a substantial relationship between DPR and PBV, the results of this study are consistent with research (Majid, 2015) showing that DPR has no significant effect on PBV.

4.2.3. PBV significantly affects stock prices

PBV can help investors determine which stock prices are fair, expensive, or inexpensive. When a stock price exceeds its book value per share, it considered overpriced by the market; conversely, when a stock price falls below its book value per share, it is considered undervalued by the market) (Majid, 2015). Theoretically, a high PBV should draw investors because it shows that the market is optimistic about the company's prospects. However (Zefnath Warkula et al., 2022) indicate that PBV has no discernible impact on stock prices. It could be because investors are taking other, deemed more crucial aspects into account. For example, a study that concluded PBV had no effect of stock prices.

4.2.4. Stock prices are significantly impacted by ROE

An organization's ability to generate profits with its capital is demonstrat by a high return on equity (ROE), which investors interpret as a promising indicator of its future performance and profitability (Kemala et al., 2021). Since companies with high ROE have tremendous potential for profit growth, investors will be interested in purchasing shares of these companies. As a result of the increased demand for these shares, the share price will rise in line with market forces, meaning that a company's share price tends to rise in proportion to its return on equity. For the market to react to the size of ROE as an investment consideration that investors will make, ROE displays the return on investment produced by shareholders and the company's prospects. The results of this research support those of (Rumondang Sinaga et al., 2023) research, which found a relationship between ROE and stock prices. In contrast, (Kurnyadi Irawan & Sumarni, 2023) research claims that ROE has no impact on stock prices.

4.2.5. Stock prices are significantly impacted by DPR

Theoretically, from the investor's perspective, a corporation is better when its dividend allocation is more significant. As a result, the market's share price may rise (Yanuarti & Dwi, 2019). According to research by (Estiasih et al., 2020), DPR does not affect stock prices. This study, however, demonstrates that while there is a theory that associates dividend allocation with rising stock prices, reseacrh did not detect this association in the context of the data examined. They were supported by research showing that DPR has no impact on stock prices (Bailia et al., 2016). This research highlights the importance of considering several additional aspects when analyzing stock prices and making investment decisions. Investors and companies must understand that a rise in DPR only sometimes translates into an increase in share price.

4.2.6. PBV can mediate ROE's effect on stock prices

The fact that PBV and ROE reflect distinct facets of business performance helps to explain why PBV was rejected as a mediating variable between ROE and stock price. PBV indicates the company's market worth in relation to its book value, whereas ROE indicates profitability. PBV might need to be a more powerful mediator because stock price valuation considers a wide range of additional elements, including growth potential, risk, and capital market circumstances. This research is consistent with the study by (E. Putri et al., 2023), which finds that PBV cannot moderate the impact of ROE on stock prices. Nonetheless, it claims that PBV can mediate ROE and stock prices, which differs from the researcher's findings (Aditya Dwikirana, 2016).

4.2.7. PBV can mediate DPR's effect on stock prices.

The fact that PBV and ROE reflect distinct facets of business performance helps to explain why PBV was rejected as a mediating variable between ROE and stock price. PBV indicates the company's market worth in relation

to its book value, whereas ROE indicates profitability. PBV may need to be a more powerful mediator because stock price valuation considers a wide range of additional elements, including growth potential, risk, and capital market circumstances.

5. Conclussion

The data analysis's results lead to the conclusion that, whereas dividend policy and company value have no discernible effect on stock prices, corporate profitability does. According to signalling theory, a company's profitability is regarded as a positive signal that might boost investor confidence in the profits the company generates. As a result, there is a high demand for the company's shares, and stock prices will consequently rise.

Corporate value is mostly determined by company profitability, although dividend policy has little discernible effect on firm value. This demonstrates that a company's worth is determined by its ability to earn profits from its capital rather than by the dividends it plans to pay and rather by the positive signals it sends to investors.

Corporate value cannot act as a mediating variable in the relationship between stock prices, dividend policy, and profitability. Indirectly, profitability and dividend policy have not been capable of raising share prices because the corporate value does not affect the amount of dividend payments or the high or low profitability the company achieves.

Due to the possibility of index company changes in subsequent years based on their respective conditions, the limitations of this research are limited to the LQ45 index companies during the 2018–2022 timeframe. Given the limitations of this research sample, it is hoped that in the future, researchers will be able to add financial variables, broaden the scope of the industrial sector, and adopt a representative sample of companies from the Indonesia Stock Exchange (IDX) in order to provide a more thorough understanding of the factors influencing stock prices.

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