The Effect Of Earnings Growth, Financial Ratios And Dividends On Stock Prices In Manufacturing Companies Listed On The LQ45 Index For The Period 2020 – 2022

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Abstract: *The purpose of this study is to see the effect of profit growth, financial indicators and dividends on the share price of the manufacturing industry listed on the LQ45 index for the 2020-2022 period. This research uses a quantitative approach and uses the Structural Equation Modeling-Partial Least Squares (SEM-PLS) test tool. The data in this study were obtained from the financial statements of public companies in the manufacturing industry listed on the LQ45 index. Independent variables include earnings growth rate, return on assets (ROA), return on equity (ROE), price to earning ratio (PER), price to book ratio (PBV), and dividends paid by the company. Research shows that financial ratios which include ROA, ROE, PER, and PBV variables have a positive and significant influence on the stock price of a company, besides that although earnings growth has a positive impact on stock prices but is not significant on stock prices, the growth varies greatly, as well as dividends.This helps investors, financial managers, and business decision makers to understand the things that affect the stock price of manufacturing companies in the LQ45 index. If a company wants to maintain or increase its share value in a competitive market, it should consider its earnings history, financial metrics, and dividend policy.*

Keywords: *Earnings, Financial Ratios, Dividends, Stocks*

INTRODUCTION

Companies in LQ45 can currently be categorized as good in their development. With many companies in LQ45, investors have more choices. LQ45 stocks include 45 highly liquid companies that are selected based on various assessment parameters. In addition to liquidity assessment, the selection of issuers also considers market capitalization. Additional requirements that make issuers included in the LQ45 index stocks must have been listed on the IDX for at least 3 months and conduct transaction activities in the normal market, which means the number, volume, and frequency of transactions and the number of trading days in the regular market. The stock market indicates the health and performance of companies and plays an important role in the world economy. This information is used as an interest for investors to know the stock price. The result of this study is to see the impact of profit growth rate, financial ratios (ROA, ROE, PER, PBV) and dividend policy on the stock price of the manufacturing industry, especially those included in the LQ45 index in 2020-2022.Investors, financial analysts, and company managers can gain important knowledge from in-depth analysis of these variables amid economic uncertainty. This research is expected to provide important recommendations for financial management and corporate investment decision-making in a volatile stock market.

In the midst of the ever-changing dynamics of the capital market and increasingly fierce business competition, attention to the company's financial performance has become increasingly profound. One of the main benchmarks in assessing the success of a company is its stock price in the capital market. Shareholders, financial analysts, and capital market participants in general are interested in understanding the factors that influence stock price movements. Therefore, this study aims to reveal the Effect of Earnings Growth, Financial Ratios, and Dividends on Stock Prices in manufacturing companies listed on the LQ45 Index during the 2020-2022 period.

Empirically, there are interesting phenomena related to the relationship between certain factors and stock price movements in manufacturing companies. The period 2020-2022 is an interesting backdrop for this study as it is a period full of global challenges, including the COVID-19 pandemic that has had a significant impact on various economic sectors. As a result, manufacturing companies are faced with unique dynamics, including changes in consumption patterns, global supply chains, and global economic conditions. In this context, corporate profit growth becomes crucial for business continuity. How profit growth responds to economic uncertainty and changes in consumer behavior is a key question. Financial ratios, as an indicator of a company's financial health, are also a focus of research as they play an important role in attracting investor interest and assessing a company's growth potential. In addition, a company's dividend policy can reflect its profit distribution policy and signal to investors about its financial health and growth potential.

Based on inflation, interest rates and income growth indicators, inflation is proven to have no significant effect on stock prices. Interest rates and income changes have no significant effect on stock prices (Andriani et al, 2020). By using the Dividend Payout Ratio (DPR), Dividend Yield (DY) variables show that the Dividend Payout Ratio (DPR) affects the stock price and Dividend Yield (DY) also affects the stock price (Ermiati et al, 2019).

 (Purwaningtyas, 2019) The share price of food and beverage manufacturing companies listed on the Indonesia Stock Exchange is strongly influenced by the current ratio (CR), quick ratio (QR), and return on assets (ROA) ratio. (Takarini & Hendrarini) With variables such as net profit margin, quick ratio, return on equity, return on equity, earning per share, and debt to equity ratio, quick ratio (QR) has a negative influence with stock price and return on equity (ROE), has a positive influence with stock price, while earning per share (EPS) has a negative influence with stock price (Permatasari et al, 2018).

Taking into account the variables of profitability, debt ratio, return on total assets, and total asset turnover, CR has a negative influence on stock prices in automotive and aftermarket

issuers listed on the IDX from 2011 to 2016, but the impact is very small, DER has a negative influence on stock prices in automotive and supplier issuers listed on the IDX from 2016 to 2017, but the impact is small, ROA has a negative influence on stock prices in automotive and supplier issuers listed on the IDX, but the impact is small.

Earnings growth not only reflects the financial performance of a company, but also indicates the company's ability to survive and thrive amidst changes in the business environment. Financial ratios, including profitability, liquidity and leverage ratios, provide a comprehensive picture of a company's financial health. Investors tend to be attracted to companies with good financial performance. A company's dividend policy can influence investor decisions, especially for those who prioritize dividend income as a source of passive income. The research period involves the global pandemic period which may have had a significant impact on corporate strategies, investment decisions, and investor behavior.

By discussing these issues, this research is expected to make a valuable contribution in understanding the factors that influence stock prices in manufacturing companies in Indonesia, especially those listed in the LQ45 Index, during the 2020-2022 period. Thus, the results of this study are expected to be the basis for making smarter and more strategic investment decisions in a dynamic capital market.

THEORETICAL STUDY

Capital Markets

The capital market is a place where individuals who have capital can interact with those who need capital, with meetings conducted through a financial instrument trading system. (Tandelilin, 2017).

The capital market is a financial structure that allows the demand and supply of capital to meet. In this market, investors have the opportunity to buy and sell stocks, bonds, and various other financial instruments. The role of capital markets is significant in providing a source of financing for companies and giving investors the opportunity to manage and invest their assets (Bodie, 2014).

The capital market consists of two main segments: the stock market, where stocks are traded, and the bond market, where bonds and other debt instruments are traded. Activities in the capital market create share prices and values, while providing important clues to companies about their value assessment in the market. Overall, the impact of capital markets is significant in the context of economic growth and capital allocation across different sectors of the economy.

Share Price

According to (Priantono, 2018) Stock value is an element that has great significance and requires attention from investors, because stock value reflects the performance of the issuing company which is a factor in the overall success of an entity.

The value of shares in the capital market is reflected in the value of each share and is determined by market participants through the dynamic interaction between the need and availability of shares in the market (Jogiyanto, 2008).

(Widoatmojo, 2005) classifies several types of stock prices that provide a more detailed description of the characteristics and dimensions of stock prices in financial markets:

1) Nominal price : the trading price per share is determined using the price per share set by the issuing company as the nominal price.

2) Initial market price: The price per share at which the shares are listed during trading hours on the exchange.The underwriter, also known as the underwriter, usually works with the issuing company to set the initial market price.

3) Market Price: The price per share of the underwriting contract sold to investors showing how the selling price varies from investor to investor.

4) Opening Price: The price per share offered by sellers or buyers at the beginning of a trading session on a stock exchange.

5) Closing Price: The price per share offered by buyers or sellers at the end of a trading session, which represents the closing price position for the day.

6) Highest Price: This is the highest price per share achieved on a trading day.

7) Base Price: The lowest price per share that occurs on a trading day is called the base price.

8) Average Price: The average price of the highest price and the lowest price over a given period is called the average price.

Profit Growth

Profit growth reflects an increase in net income that can be used to ensure the survival of a company, both in the form of property and money.(Huang, 2022) explains that profit has an important role in financial statements because it has an impact on tax calculations, guides investment decisions, forecasts future profits, evaluates company efficiency, and assesses company performance.

(Abas, 2020) We define profit as the increase in economic profit over a period of time, e.g. through revenue, asset addition, debt reduction, etc. leading to an increase in equity without direct capital contribution. Accounting profit is calculated as the difference between revenue and expenses, which is highly dependent on the accuracy of measurement of both.

The relationship between periodization, actual transactions, the principle of revenue, cost measurement over time, and the principle of correspondence between revenue and related costs are the characteristics of profit (Hakim, 2020).

Financial Ratio

(Hery, 2018) If financial statements are used as a tool to assess the performance and financial position of a company, then financial ratios are the result of calculations that involve comparisons between important items in the financial statements. This comparison can be made between financial statement items or between items in the same financial statement.

(Warianto, 2014) states that financial ratios are values made by comparing parts of financial statements that have a relevant and important relationship with each other.

(Ndubuisi, 2018) Explains that financial ratios are comparisons of financial statement figures using a segmentation approach. This process may involve comparisons between items in financial statements, or between items in several financial statements. Various financial indicators are used to evaluate the performance of a company, such as liquidity ratios, debt ratios, and activity ratios.

Dividends

(Sutrisno, 2013) Dividends are considered part of the profits distributed to shareholders and can provide important information to the capital market about the company's management. Therefore, dividends can be considered an indicator of the future of a company (Surya, 2016).

The amount of dividends paid depends on the company's profit-making ability and the type of dividend policy applied (Erri, 2018).

RESEARCH METHODS

Research Design

This study utilizes a quantitative methodology based on positivism, or concrete data. This method consists of using statistics to test the numbers and determine the relationship between the problem under investigation and the results (Sugiyono, 2018).

Place and Time

This research uses data from www.idx.co.id and www.finance.yahoo.com to examine the elements that affect the value of LQ45 stocks from 2020 to 2022. This research started in September 2023 until completion.

Data Types and Sources

Data obtained and processed from other sources (usually in the form of publications) is called secondary data, this type of data is used in quantitative data collection (Suryani et al, 2015). The information used in this study was obtained from the Indonesia Stock Exchange website (www.idx.co.id) and www.finance.yahoo.com.

Population and Sample

All manufacturing companies listed in LQ45 are the subject of this study. The purposive sampling method is based on the standards set by the researcher (Sugiyono, 2015). For this study, the following criteria were used: (1) manufacturing companies listed on the IDX and included in LQ45 in the 2020-2022 period; and (2) manufacturing companies listed on the IDX and always included in LQ45 have never left LQ45 during the 2020-2022 period. All manufacturing companies listed in LQ45 are the subject of this study.

Data Collection Technique

The data collection process includes collecting data or information needed to achieve the research objectives. The main objective of this research is to find answers to a hypothesis or formulate a solution to a research problem. The methods used are different because the data and information are not the same (Gulo, 2002).

The data required for this study was collected through direct observation method from the secondary data sources of the Indonesia Stock Exchange, namely www.idx.co.id and www.finance.yahoo.com.
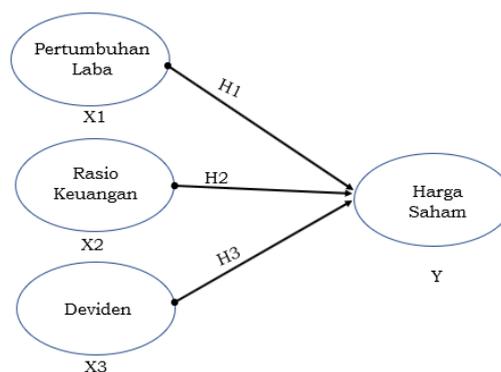
Conceptual Framework

Figure 2. Conceptual Framework

Data Analysis Method

a. Descriptive Statistical Analysis

Researchers use descriptive statistical analysis to describe or illustrate research data. You can use this analysis to calculate values such as mean (average), minimum value, maximum value, and standard deviation. (Ghozali, 2018).

b. Validity Test

To evaluate the validity of an indicator, we must look at its external load. If the external load is high on a variable or construct, then this indicates that the indicator has a lot in common with the construct or variable. All indicators must have statistically significant external load values. The minimum external loading value must be above or equal to 0.7 (minimum 0.7) which indicates that all variable indicators are valid (Hair et al, 2017).

c. Coefficient of Determination (R 2)

In this study, the coefficient of determination (R 2) is used as a tool to show the extent of the ability of a regression model to explain the variation in the dependent variable between the coefficient of determination values of 0 and 1. The effect of independent variables provides most of the information needed to predict variable variation, especially when the R 2 value is close to zero. The R2 value varies between 0 and 1 and relates to the explanatory power of the PLS structural model and the prediction of endogenous variables. A model is said to be strong if the R2 value is 0.75, moderate if 0.50, and weak if 0.75 (Hair et al, 2017).

RESULT AND DISCUSSION

Research Result
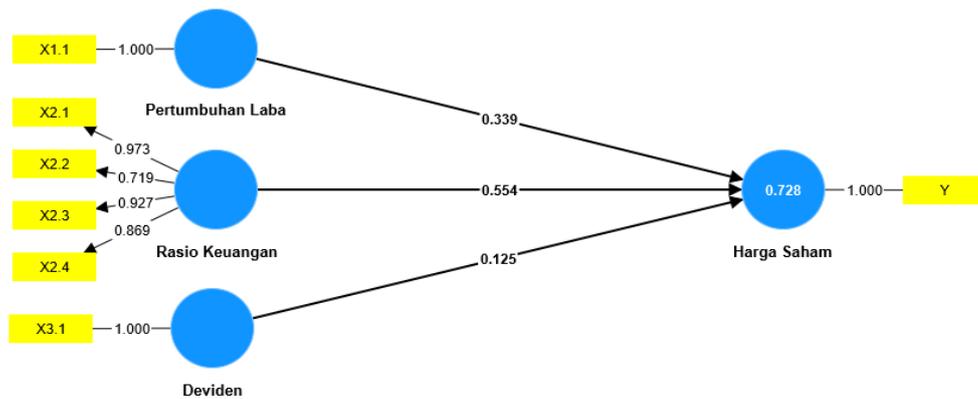

Figure 2. Structural Model Test Results

Data Analysis

a. Validity Test

Variable	Profit Growth (X1)	Financial Ratio (X2)	Dividends (X3)	Share Price (Y)
X1.1	1.000			
X2.1		0.973		
X2.2		0.719		
X2.3		0.927		
X2.4		0.869		
X3.1			1.000	
Y				1.000

Table 1. Outer Loading Result

The validity test was conducted to ensure that the information used in this research is accurate. The results of the external loading test show the validity of this research. as mentioned (Hair et al, 2017) . All indicators must have statistically significant external loading values. The minimum external loading value must be greater than or equal to 0.7 which indicates that all variable instruments are valid.

The external load results table shows that all indicators examined in the study meet the requirements, namely having a value above 0.7. This indicates that the data used is valid.

b. Determination Coefficient Test

	R-Square	R-square adjusted
Share Price	0.728	0.697

Table 2. R-Square

How far a regression model is able to explain the variation in the dependent variable with a coefficient of determination value between 0 and 1 is measured using the coefficient of determination test. (Ghozali et al, 2017). The R^2 value relates to the explanatory power of the PLS structural model and variable prediction. If the R^2 value is 0.75, the model is considered strong, 0.50 is moderate, and 0.25 is weak (Hair et al, 2017).

In the table above, the R^2 of 0.728 indicates that earnings growth, financial ratios, and dividends influence stock prices by 72.8%, while the other 27.2% is influenced by variables other than the variables tested.

c. Hypothesis Test

Ha	Relationship Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values	Significant
H1	Profit Growth-> Share Price	0.339	0.361	0.180	1.887	0.059	Not Significant
H2	Financial Ratio-> Share Price	0.554	0.558	0.227	0.663	0.015	Significant
H3	Dividends-> Share Price	0.125	0.086	0.189	0.663	0.508	Not Signifikan

Table 3. Hypothesis Testing Results

Hypothesis testing is done by assessing the significance value. If the p-value is smaller than the significant level, then the hypothesis test coefficient is considered significant. The significant value used is 0.05 (5%).

The test data listed in the table above shows that financial indicators have a positive and significant influence on the value of LQ45 stocks. On the other hand, earnings growth and

dividends affect LQ45 stock prices in the opposite direction, which is negative, but not significant.

DISCUSSION

Earnings growth has a positive effect of 33.9% and is insignificant with a p value of 0.059 which means the p value> 0.05, so H1 is rejected and Ha is accepted. This research accepts (Andriani et al, 2020) Companies say earnings growth will not have a big impact on stock prices. However, if companies can implement sustainable sales strategies, earnings growth can often have a positive impact on stock prices. However, earnings growth may not have much impact on stock prices for various reasons such as company risk. Companies with a high risk profile may be less affected by earnings growth and there are factors such as global economic conditions and government policies.

Financial ratios have a positive effect of 55.4% and are significant on stock prices with a p value of 0.015 which means that the P value <0.05, H2 is accepted and Ha is rejected. Financial indicators have a positive and significant effect on stock prices. (Permatasari et al, 2018) stated that financial ratios have a negative influence on stock prices, but the impact is small because the metrics tested are different. Financial ratios strongly influence stock prices as they reflect how well a company optimizes its performance, resulting in personalized stock prices. Financial ratios can also increase investor confidence in a company.

Financial ratios have a positive effect of 12.5% and significant on stock prices with a p value of 0.508 which means that the P value> 0.05, H3 is rejected and Ha is accepted. Dividends have a positive impact on stock prices, although not much. The researchers rejected the research (Ermiati et al, 2019) which shows that dividends have a major impact on stock prices. This rejection stems from the fact that the objects tested are not the same. Market events and market expectation mismatches are some of the factors that make dividends insignificant to stock prices.

CONSLUSIONS AND SUGGESTIONS

Conclusion

From the data analysis, several conclusions can be drawn regarding the effect of earnings growth, financial ratios, and dividends on the stock prices of manufacturing companies listed on the LQ45 index for the 2020-2022 period. Earnings growth has a positive impact on stock prices, although not significant, positive earnings growth can have a good impact on the stock price of small companies, increased revenue indicates strong performance, increases investor confidence and drives up stock prices. In addition, stock prices are positively

and significantly affected by financial ratios, as they reflect the stability and growth potential of the company. Dividends have a positive impact on stock prices, although not much, their influence may not be as great as profit growth or other financial indicators. However, dividend payments remain an important factor of interest for some investors seeking passive income from stock investments.

Suggestions

External economic factors, as well as other factors that may affect dividends, are some additional factors that have the potential to affect stock value. The findings from this study can be utilized to determine these additional factors.

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