Determinants of the Equity Price of Main Board Index Companies

Siti Komariah[1*], Gusni[2], Suskim Riantani[3]

siti.komariah@widyatama.ac.id[1*]

Universitas Widyatama, Jl. Cikutra No. 204A, Kota Bandung, Jawa Barat, Indonesia

ABSTRACT

Stock prices consistently vary over time in the capital market and can be influenced by various internal and external factors. This study aims to identify the elements that investors take into account when making investment decisions in the Main Board Index of the Indonesian stock market, as well as the factors that determine stock prices. Data were collected between 2018 and 2022 from 106 companies listed on the Main Board Index using purposive sampling method. Panel data regression technique has been used to explain the determinants of the company's stock price. The findings show that profitability as measured by earnings per share (EPS) and return on assets (ROA), along with firm size and value, contribute positively to stock prices. In contrast, capital structure has a negative impact on stock prices, while dividend policy does not affect stock prices. Our findings underscore the importance for investors to consider factors within the firm in addition to external factors when processing information and considering investment options.

Keywords : **Equity Price; Internal Factors; Main Board Index; Panel Data; Capital Market**

ABSTRAK

Harga saham secara konsisten bervariasi dari waktu ke waktu di pasar modal dan dapat dipengaruhi oleh berbagai faktor internal dan eksternal. Penelitian ini bertujuan untuk mengidentifikasi elemen-elemen yang diperhitungkan investor ketika membuat keputusan investasi di Indeks Papan Utama pasar saham Indonesia, serta faktor-faktor yang menentukan harga saham. Data yang dikumpulkan antara tahun 2018 dan 2022 dari 106 perusahaan yang terdaftar di Indeks Papan Utama dengan menggunakan metode purposive sampling. Teknik regresi data panel telah digunakan untuk menjelaskan faktor-faktor penentu harga saham perusahaan. Temuan penelitian menunjukkan bahwa profitabilitas yang diukur dengan laba per saham (EPS) dan laba atas aset (ROA), bersama dengan ukuran dan nilai perusahaan, berkontribusi positif terhadap harga saham. Sebaliknya, struktur modal memberikan dampak negatif terhadap harga saham, sementara kebijakan dividen tidak mempengaruhi harga saham. Temuan kami menggarisbawahi pentingnya bagi investor untuk mempertimbangkan faktor-faktor di dalam perusahaan selain faktor eksternal ketika memproses informasi dan mempertimbangkan pilihan investasi.

Kata Kunci : **_Harga Saham; Faktor internal; Indeks Papan Utama; Data Panel; Pasar Modal_**

INTRODUCTION

The capital market serves as a platform for investors to make investments. Stocks are one of the appealing investment options for investors. Generally, investors engage in equity market transactions to sell their held shares at a higher price to achieve capital gains. Stock prices constantly fluctuate due to the forces of supply and demand in the equity market. When demand for a stock is high, its price will increase; conversely, if supply exceeds demand, the stock price will decrease (Malaolu et al., 2013; Muflih, 2012). Generally, stock prices fluctuate every trading day due to various factors, such as profitability (Chandra & Osesoga, 2021; Kusumawardhani & Nugroho, 2021; Zain et al., 2023), firm size (Rjoub et al., 2017; Sharif et al., 2015), company value (Kusumawardhani & Nugroho, 2021), capital structure (Chandra & Osesoga, 2021; Özlen & Ergun, 2012) and dividend policy (Sharif et al., 2015), which are useful for investors when analyzing whether a company's condition is favorable for investment activities.

Understanding the company's performance and condition can serve as valuable information and a reference for investors to predict stock price movements (Nasarudin et al., 2019; Sharif et al., 2015). The theory of Efficient Market Hypothesis (EMH), demonstrates that investor behavior is influenced by the relevant information available in the market. This theory defines an efficient capital market as one where share prices fully reflect all pertinent information, ensuring that stock prices are accurate and fair (Bodie et al., 2021). Investors can derive insights into the company's performance by analyzing the financial ratios published in the company's financial statements. The financial performance of a company significantly impacts its stock prices. When a company reports profits that exceed those of the previous period, it attracts many investors to buy shares, driving up the stock price (Sukesti et al., 2021). Profitability evaluates how effectively a company can generate profits from its total assets (Purnamawati, 2016). Highly profitable companies have the opportunity to expand or develop their business to achieve even greater profits, thereby attracting investor interest (Meilia & Dwiarti, 2022).

The profitability indicators utilized in this study are Return On Assets (ROA) and Earnings Per Share (EPS). ROA provides investors with insight into how effectively a company's management utilizes its assets to produce earnings (Sukesti et al., 2021). A high ROA indicates that the company is performing well in both financial and operational aspects, which will boost investor interest and raise demand for the stock. Conversely, a low ROA indicates unfavorable prospects for the company's growth (Kristin & Nugraheni, 2023). EPS is valuable for evaluating a stock's performance per share, as it indicates its profitability based on the income it produces (Rulloh et al., 2020). A higher EPS signifies that the company can generate substantial profits. When the company shows good performance, evidenced by rising earnings per share, it tends to attract more interest from investors (Chandra & Osesoga, 2021). Several studies indicate that the profitability, gauged through ROA or EPS, correlates positively with stock prices (Yuniawati & Airlangga, 2021); Chandra & Osesoga, 2021; Purnamawati, 2016; Rulloh et al., 2020; Sukesti et al., 2021). Additional studies indicate that ROA and EPS does not influence stock prices (Gracia & Panggabean, 2019; Kusumawardhani & Nugroho, 2021; Rulloh et al., 2020).

Investors also consider firm size when making investment choices since it correlates with the company's capacity to generate profits (Supiyadi & Novitas, 2023). The company's scale refers to its size, which can be assessed based on its overall assets, average asset holdings, total revenue, and average revenue. The size of a company is a significant determinant influencing its profitability. Larger firms, possessing greater total assets, wield more resources capable of generating revenue. Consequently, this fosters heightened investor trust and can stimulate an upward trajectory in share prices (Sitorus et al., 2021;

Supiyadi & Novitas, 2023). The larger the company's size, the greater the likelihood that an investor will invest in its stock (Purwanto & Agustin, 2017). Companies possessing a substantial asset base are frequently viewed as having promising prospects and can yield advantages for shareholders. Consequently, such stocks can thrive in the capital market, with their price appreciating as investor interest grows (Arifin & Agustami, 2017). Several researches indicate that the firm size correlates positively with its stock prices (Arifin & Agustami, 2017; Fathinah & Setiawan, 2021; Sitorus et al., 2021; Tyas & Almurni, 2020). Additional research findings indicate that the size of a company does not influence stock prices (Sukesti et al., 2021; Warkula et al., 2022).

The stock price also has a close relationship with company value. The company's value reflects investors' evaluations of the company, as it is closely tied to the funds they have invested. Company value reflects market appreciation of the company because of the company's ability to utilize the assets owned by the company effectively (Kusumawardhani & Nugroho, 2021). A high company value indicates that the company's shares are priced highly, reflecting investor confidence in the company's current performance and future prospects. This high value also signifies substantial shareholder prosperity. Shareholder and company wealth are represented by the market price of shares, which mirrors decisions regarding investment, funding, and asset management (Kusumawardhani & Nugroho, 2021; Warkula et al., 2022). Several research finding indicate that the firm's value positively impacts stock prices (Agil Krisna Rivanda, 2023; Harjadi et al., 2023; Kusumawardhani & Nugroho, 2021). Other studies fail to detect the impact value of firm on stock prices (Warkula et al., 2022). There is still limited research on how firm value affects equity prices in the Indonesian capital market, making it a particularly intriguing area for further investigation.

The choice of determining the optimal capital structure for a company holds significance as it directly impacts the potential profits and losses encountered by the company's shareholders, thereby affecting the company's financial performance (Gusni et al., 2020). Capital structure refers to the mix of debt and equity employed by a company to fund its assets (Titman & Wessels, 1988). Certain investors believe that as a company grows, it will necessitate significant funds beyond what it can generate internally, leading to a reliance on external financing in the form of debt. These investors have confidence that the company will meet its financial obligations and generate returns for shareholders, ultimately influencing the stock price (Fathinah & Setiawan, 2021). Nevertheless, excessive debt utilization will lead to diminished investor confidence due to its association with company risk, inevitably resulting in a decline in the company's equity price (Sitorus et al., 2021). (Fathinah & Setiawan, 2021) found that capital structure has positive effect on share price. Several research findings indicate that share prices are adversely impacted by capital structure (Meilia & Dwiarti, 2022; Nurfauzi et al., 2020; Tyas & Almurni, 2020). Other studies' findings did not identify any impact of capital structure on stock prices (Harjadi et al., 2023; Lubis & Adriani, 2021; Yuniawati & Airlangga, 2021).

In addition to the aforementioned factors, dividend policy is also connected to stock prices, but the effect of dividend policy on equity prices continues to be a topic of debate among managers, policymakers, and researchers (Singh & Tandon, 2019). The dividend policy holds significance for investors, managers, lenders, and other stakeholders. Investors perceive dividends not only as a means of income but also as a method to evaluate firms from an investment perspective concerning the financial performance of the company (Al Masum, 2014; Singh & Tandon, 2019). Traditionally, finance researchers have focused on theories regarding dividends that revolve around the need to convey information to shareholders or meet the varying dividend preferences of different investor groups (Denis & Osobov, 2008). Consistent dividend payments to shareholders have been

shown to substantially enhance the stock's market value (Gordon, 1963). An increase in dividend distribution is viewed favorably, signaling positive future earnings prospects for the company, while a reduction in dividend payments is seen as unfavorable, indicating potential negative prospects. Consequently, such actions may result in either an upswing or downturn in the firm's stock prices (Vijayakumar, 2010). Conversely, (Miller & Modigliani, 1961) introduced the dividend irrelevance theory, suggesting that a company's dividend policy holds no significance as it has't impact on the stock price or shareholders' wealth. Several research works have discovered a positive impact of dividend policy on share prices (Al Masum, 2014; Gordon, 1963; Oktafiani et al., 2022), while others have identified a negative impact of dividend policy on stock prices (Adesina et al., 2017; Sharif et al., 2015; Singh & Tandon, 2019). Other studies have not observed any impact of dividend policy on equity prices (Miller & Modigliani, 1961; Nurfauzi et al., 2020).

The objective of this research is to identify the factors influencing equity prices (profitability, firm size, firm value, capital structure, and dividend policy) and to elucidate the criteria investors take into account when deciding on their investments within the Main Board Index of the Indonesian stock market spanning from 2018 to 2022. This study stands apart from previous research as it endeavors to elucidate the link among firm value, dividend policy, and stock prices, alongside other general variables, an area that has received limited attention in Indonesia, particularly within studies focusing on companies in the main board index. The findings of this study are anticipated to assist management teams of companies listed on the main board index in comprehending the determinants affecting their firm's stock prices, enabling them to implement suitable measures to attract investor interest in investment. Additionally, it serves as valuable information for investors in guiding their investment decisions effectively. Finally, it is hoped that these research outcomes will enrich financial literature and stimulate novel avenues for future research endeavors concerning stock price dynamics.

The results of this study are expected to help management teams of companies listed on the main board index understand the factors influencing their stock prices, enabling them to take appropriate actions to attract investor interest. Moreover, it provides valuable insights for investors to guide their investment decisions effectively. Lastly, these findings are anticipated to contribute to financial literature and inspire new directions for future research on stock price dynamics.

RESEARCH METHOD

The conducted study represents applied research employing a quantitative methodology aimed at identifying the key determinants of equity prices among companies listed on the main board index of the Indonesian capital market. The data utilized in this investigation is secondary data originates from the official Indonesian capital market website, comprising secondary data drawn from IDX statistics, financial statements, and annual reports of companies. This study also using essential supplementary information sourced from articles, journals, textbooks, and similar resources. It employs a blend of cross-sectional and time-series data, commonly referred to as panel data. Panel data provides richer information, increased variability, reduced collinearity among variables, greater degrees of freedom, and enhanced efficiency (Das, 2019).

In order to meet the research goals, a selection of companies listed on the Main Board Index of the Indonesian capital market was made, covering the period from 2018 to 2022. The total population comprised 348 companies, from which 106 companies were chosen as samples through purposive sampling. The sample selection criteria included: (1) Continuous listing on the main board index throughout the 2018-2022 period, and (2)

Consistent distribution of dividends during the research period.

All variables employed in this study adhere to a ratio scale. Table 1 provides a comprehensive explanation of each variable, including their respective measurements.

Table 1. Variables and Hypotheses

No	Variables	Concept Variables	Indicators	Expected Sign
1	Profitability	Profitability is the outcome of various policies and decisions.	$ROA = \dfrac{Net\ Income\ available\ to\ common\ stockholders}{Total\ assets}$	H$_1$ (+)
			$EPS = \dfrac{Net\ Income}{Number\ of\ outstanding\ share}$	H$_2$ (+)
2	Firm Size	The size of a company which valued from the total assets owned	LN Total Asset	H$_3$ (+)
3	Firm Value	The market appreciation of the company's achievement	$Tobins\ Q = \dfrac{Market\ value\ of\ Equity + Total\ debt}{Total\ Asset}$	H$_4$ (+)
4	Capital Structure	The mix of debt and equity a company uses to fund its assets	$DER = \dfrac{Total\ Debt}{Total\ Equity}$	H$_5$ (-)
5	Dividend Policy	Decisions about distributing profits to shareholders through dividends	$DPR = \dfrac{Dividend\ per\ share}{Earning\ per\ share}$	H$_6$ (+)

Source: Processed by researchers, 2024

The panel data regression model is employed to address these research hypotheses, utilizing the following Formula 1.

$$EP = a + \beta_1 ROA + \beta_2 EPS + \beta_3 FIS + \beta_4 FIV + \beta_5 CAS + \beta_6 DIV + e \qquad (1)$$

Based on Formula 1, where a is a constant and $\beta1$, $\beta2$, $\beta3$, $\beta3$, $\beta4$, $\beta5$, $\beta6$ are regression coefficient in the formula 1. The dependent variable is equity price (EP), while the independent variables include profitability (ROA and EPS), firm size (FIS), firm value (FIV), capital structure (CAS), and dividend policy (DIV). These independent variables are detailed in Table 1.

Panel data regression analysis typically starts with classic assumption tests that consist of multicollinearity and heteroscedasticity test. The objective is to verify that the regression model accurately estimates, remains unbiased, and maintains consistency. The subsequent stage involves assessing the model through both the F test and the coefficient of determination test to find out whether the model formed is fixed and the capacity of the independent variables employed in this study to explain variations in the dependent variable. The ultimate examination conducted was a hypothesis test (T-test) to determine if each independent variable utilized in this study had an impact on the dependent variable.

RESULTS AND DISCUSSION

The panel data regression analysis reveals that the regression model constructed doesn't exhibit multicollinearity issues, as evidenced by the Variance Inflation Factor (VIF) values of each variable being less than 10, as depicted in table 2. This indicates that all independent variables in the research's regression model are mutually independent. The

outcome of the Breusch Pagan Godfrey (BPG) test indicates a significant P-value obs*R-square of 0.0000 < 0.05, suggesting the presence of heteroscedasticity. To address this issue in panel data stemming from both cross-sectional and time series elements, White's diagonal standard errors are employed, as recommended by (Nachrowi & Usman, 2006).

In this study, the regression equation is constructed using the random effects model, which was chosen based on the results of the Chow, Hausman, and Lagrange Multiplier test. The Random Effect model is deemed most appropriate for this study as it uses more on cross-sectional than on time series data. The regression findings and multicollinearity test result displayed in the Table 2.

Table 2. Random Effect and Multicollinearity Test Results

Variables	Coefficient	Multicollinearity (VIF)
Profitability (ROA)	1.108913**	2.055624
Profitability (EPS)	0.056525***	1.589855
Firm Size	0.361169***	1.657078
Company Value	0.189206***	1.462501
Capital Structure	-0.088390**	1.637402
Dividend Policy	-0.001320	1.086146
R-squared	0.337723	
Adjusted R-squared	0.330125	
F-statistic	44.44997	
Prob(F-statistic)	0.000000	

*Note: **, and *** significance at 5% and 1%*
Source: Financial statements of the company, data is processed by authors, 2024

The data in Table 2 indicates that the coefficient of variation, which illustrates the direction of variability (β), is positive for profitability (ROA and EPS), firm size, and company value. This implies that an increase of one unit in profitability, firm size, and company value will result in an increase in the equity price by the amount of the coefficient of variation. Conversely, the coefficients for capital structure and dividend policy are negative, meaning that a one-unit increase in capital structure and dividend policy will lead to a decrease in the equity price by the amount of the coefficient of variation.

The outcomes of the model test (F-test) indicate that the independent variables utilized in this study can describe the dependent variable, or in other words, the regression model is appropriate. The equity price model is quite effective, as indicated by a coefficient of determination (Adjusted R^2) of 0.3301 in table 2. This means that 33.01 percent of the variation in share prices on the main board index of the Indonesian capital market can be attributed to changes in profitability, firm size, company value, capital structure, and dividend policy, considering the sample size and number of independent variables. The remaining 66.99 percent is due to variations in other factors not included in the regression model.

The findings presented in Table 2 indicate that profitability, as measured by ROA and EPS, positively impacts the equity price on the main board index. This situation shows that investors consistently consider a company's profitability, indicated by ROA and EPS values, when making investment decisions. As the ROA and EPS ratios increase, so does the company's share price. ROA gives investors an understanding of how effectively a company's management uses its assets to generate profits (Sukesti et al., 2021). Meanwhile, EPS is also crucial for investors because it shows a company's profitability on a per-share basis, indicating the income produced by the company (Rulloh et al., 2020). A high ROA and EPS signify strong overall company performance, likely increasing investor

interest and driving up demand for the stock (Chandra & Osesoga, 2021; Kristin & Nugraheni, 2023). Investors typically favor long-term investments in large corporations listed on the main board index. Their primary focus about company profitability of these companies, as it directly influences future prospects and the potential for capital gains from increase in share prices and the distribution of the company's profits through dividends. The results of this study align with previous research (Chandra & Osesoga, 2021; Purnamawati, 2016; Rulloh et al., 2020; Sukesti et al., 2021; Yuniawati & Airlangga, 2021), indicating that profitability, whether assessed through ROA or EPS, positively influences equity prices.

The company's size is indicated by its total assets. The size of firms plays a crucial role in affecting its profitability. Large corporations possess significant resources capable of generating revenue, thereby earning investors' trust (Sitorus et al., 2021; Supiyadi & Novitas, 2023). The empirical test results demonstrate that the size of a company positively influences its stock prices in accordance with the theory above. As the company's size grows, investor trust in it also increases, leading to greater demand for its shares and consequently driving up the company's equity price. (Arifin & Agustami, 2017) mention that firm's with significant assets are often seen as having bright futures and can provide benefits for shareholders. As a result, these stocks may flourish in the capital market, with their value increasing as investor enthusiasm builds. The results of this study align with prior research indicating that larger firms tend to positively influence equity prices (Arifin & Agustami, 2017; Fathinah & Setiawan, 2021; Sitorus et al., 2021; Tyas & Almurni, 2020).

Larger corporations typically exhibit higher company valuations, which in turn attract investor attention and drive up the prices of company shares. The value of the company mirrors investors' assessments, as it is intricately linked to the capital they have contributed. Company worth reflects market recognition of the company's performance in effectively leveraging its assets (Kusumawardhani & Nugroho, 2021). A hight company valuation suggests that the company's stocks are priced at a premium, indicating investor trust in both the company's present achievements and its future potential. This elevated valuation also denotes considerable shareholder wealth. Both shareholder and company prosperity are symbolized by the stock market's share prices, which reflect decisions made regarding investment, financing, and asset administration (Kusumawardhani & Nugroho, 2021). This theory aligns with research findings indicating that the value of a company positively influences its equity price. A high company valuation can bolster investor confidence, potentially leading to heightened demand for company shares and subsequent increases in their prices. Investors' confidence in both the present and future success of a company has the potential to boost its stock price. Hence, it becomes incumbent upon management to consistently enhance the company's value, fostering investor loyalty. The results of this study align with prior research (Agil Krisna Rivanda, 2023; Harjadi et al., 2023; Kusumawardhani & Nugroho, 2021), indicating that the value of a company positively influences its stock price.

Stock price is also strongly correlated with capital structure. Financial managers aim to optimize the use of debt in their capital structure to enhance the company's value while simultaneously boosting its share price. Employing significant debt in a company's capital structure tends to foster management's optimism regarding future cash flows, potentially leading to an increase in the company's stock prices. However, the research findings indicate that capital structure negatively impacts share prices. This implies that an increase in the use of debt within a company's capital structure will result in a further decline in share prices. These research findings contradict the theory proposed by (Miller & Modigliani, 1961), which asserts that the use of debt within a company will enhance its value and, consequently, increase its stock price (Modigliani & Miller, 1958, 1963). The

unstable economic conditions in recent years have raised concerns among investors about companies increasingly relying on debt to fulfill their capital structure needs. This practice is associated with higher risks for the company, potentially diminishing investor interest in the company's shares and consequently leading to a decline in the share price. The findings of this study align with previous research (Meilia & Dwiarti, 2022; Nurfauzi et al., 2020; Tyas & Almurni, 2020), indicating that there is an inverse relationship between capital structure and stock prices.

According to signaling theory, dividends serve as a means of conveying information to investors regarding the company's performance. This prompts a favorable reaction in the capital market, as asserted by (Megginson, 1997), who suggests that when a company announces an increase in dividends, the stock price typically rises by one to three percent. On the contrary, if the company decreases or eliminates dividends, the stock price may decrease by as much as 50%. Nevertheless, the results of this study go against this theory, indicating that dividend policy does not influence the equity price of the company. The results of this study corroborate the viewpoint presented by Miller and Modigliani (1961) in their dividend irrelevance theory, which posits that a firm's dividend policy is inconsequential as it does not influence stock prices or shareholders' wealth. Large corporations tend to distribute dividends more frequently compared to medium and small enterprises. However, they have not succeeded in persuading investors to purchase company shares when dividends are issued. In fact, several large companies have witnessed a decline in their stock prices upon the announcement and distribution of dividends. Hence, it can be inferred that investors' decisions regarding the purchase of company shares are not affected by the company's dividend policy. The results of this study align with the research carried out by (Miller & Modigliani, 1961; Nurfauzi et al., 2020), indicating that there is no impact of dividend policy on company equity prices.

CONCLUSION

This study objective is to identify the factors influencing equity prices and also define the factors that investors consider in their decision-making process regarding investments in the Main Board Index of the Indonesian capital market. The research findings indicate that profitability, as measured by ROA and EPS, along with firm size and company value, positively influence the company's equity price. This situation demonstrates that improved company performance leads to increased investor confidence, which in turn can drive the company's share price higher. In contrast, capital structure negatively impacts the company's share price. The economic instability in recent years has caused investors to worry about companies increasingly depending on debt to meet their capital structure requirements. This practice carries higher risks for the company, potentially reducing investor interest in its shares and subsequently causing a decline in the share price. Meanwhile, dividend policy does not impact the company's equity price.

The findings of this study align with the dividend irrelevance theory, which claims that a company's dividend policy is unimportant as it does not impact stock prices or shareholders' wealth. The results of this study are expected to help management teams of companies listed on the main board index understand the factors influencing their stock prices, enabling them to take appropriate actions to attract investor interest. Moreover, it provides valuable insights for investors to guide their investment decisions effectively. Lastly, these findings are anticipated to contribute to financial literature and inspire new directions for future research on stock price dynamics.

RECOMMENDATION

The findings of this research can assist the management of companies listed on the main board of the Indonesian capital market in consistently enhancing the company's profitability and Maintaining the stability of debt usage in the company's capital structure. This, in turn, can promote growth in company size, as evidenced by the increase in company assets, and positively affect the company's value. Such improvements will likely attract investors, ultimately driving up the company's share price. This research has several limitations that might affect the results. It focuses solely on companies listed on the main board of the Indonesian capital market and uses only six independent variables. Therefore, future research recomended to include companies listed on the development board and acceleration board indexes as well. Additionally, incorporating other independent variables that align more closely with theory and previous research is recommended to improve the quality and relevance of the findings, thereby contributing to the advancement of financial literature.

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