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Effect of Earning Per Share, Price Earnings Ratio, and Firm Size on Stocks Return

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ABSTRACT : Return on Stocks is the level of profit enjoyed by investors for their investment. In stock investing, there are two components of profits that will be received by investors, the first is dividends and the second component is capital gains. The purpose of this study is to determine the effect of earning per share, price earning ratio and firm size on stock returns. This research is conducted at telecommunication sub-sector firm listed on the IDX from 2014-2019. The number of samples taken was 5 firm using the non-probability sampling method. The data analysis technique used is multiple linear regression analysis. Based on the analysis, earning per share has a positive effect on stock returns, price earning ratio has no effect on stock returns, and firm size has a negative effect on stock returns.

KEYWORDS: *Earning Per Share, Price Earning Ratio, Firm size, Stock Return*

I. INTRODUCTION

In the modern era, investing in stocks is one of the various investment options that are in demand by the public, including university students. Investors who want to learn to invest but have a small capital can start investing in stocks without worrying about the initial capital to invest(Musallam, 2018). Stocks are the most preferred investment instrument because they provide a higher return than other instruments, thus, the determinants of stock returns are one of the most important subjects in the financial literature(Suhadak et al., 2019). In capital market theory, return is a term used for the rate of return received by investors from stocks traded in the capital market(Kumar, 2017)

Earnings Per Share (EPS) is a ratio to measure the success of management in achieving profit for shareholders(Velankar, 2017). Earnings Per Share is the amount of income earned in one period for each outstanding stock and will be achieved by the firm's leadership to determine the amount of dividends to be distributed. Earnings per share is influenced by the firm's income so that if the EPS ratio is high, it will have an impact on increasing stock returns and therefore investors will judge that the firm is in good condition(Hertina et al., 2019). Earnings per share has increased, meaning the firm is in a growth stage and its financial condition is experiencing an increase in sales and profits. High earning per share indicates that the firm's ability to generate net profit on shares is also high which will affect the return obtained by investors in the capital market(Nagendra, 2018). Amyulianthy & Ritonga (2016)found that Earning Per Share has a positive effect on stock returns. However, Djajadi & Yasa (2018), Tikasari & Surjandari, (2020)found that Earning Per Share has no effect on stock returns. Jasman & Kasran (2017)found that Earning Per Share has a negative and significant effect on stock returns.

Price Earnings Ratio (PER) is the ratio between the stock price and the income of each stock and is an indicator of the development or growth of the firm in the future. PER measurement is very important because the amount of profit the firm will generate will determine the amount of dividends that can be paid in the future. PER shows how much investors are willing to pay for each currency unit of the firm's earnings, this also reflects investor confidence and sentiment about the future performance of the firm and influences investment decisions (Dayag & Trinidad, 2019). Puji Lestari (2016), Muhammad (2018), Ningsih (2016)found that Price Earnings Ratio has a significant positive effect on stock returns. Paryanto & Sumarsono (2018)found that Price Earnings Ratio has a negative and insignificant effect on stock returns. However, Hakim & Abbas (2019)found that Price Earnings Ratio has no significant effect on stock returns

Firm that have large total assets show that the firm is relatively more stable and able to generate higher profits than firm that have little or low total assets. Firm with larger sizes have greater access to sources of funding from various sources so that it can obtain loans from outside parties or creditors which will be easier because firm with large sizes have a greater chance of attracting investors(Tanjung & Wahyudi, 2019). Ayem & Astuti (2019)found that firm size has a negative effect on stock returns. Akwe (2019)found that firm size has a positive effect on stock returns. However Nadiyah & Suryono (2017)found that firm size does not affect stock returns

The prospect of a firm is usually reflected in its earnings per share. The firm's ability to maintain a high EPS means that it will increase investor confidence in the firm so that it can increase the stock price. The price earnings ratio is a market appreciation of the firm's ability to generate profits and for investors the smaller the PER of a firm is getting better because the stock price will be cheap. For the size of the firm, seen from the number of assets it owns, the higher the number of assets of the firm, the more investors will be interested in investing their money in the firm, which in the future will affect the firm's stock price (Kurniati, 2019). This research is important and interesting to do because there are still inconsistent results from previous studies. This inconsistent result is due partly to the fact that the firm in the sample are the most frequently traded firm, where investors are traders and not long-term investors, so they do not pay attention to earnings per share in particular. The duration of the study is still short, where the research was only conducted for two years, so the results of the study may be less valid. This research will then be conducted in telecommunication sub-sector firm listed on the Indonesia Stock Exchange with a research period of six years (2014-2019). The purpose of this study is to help investors make efficient and accurate investment decisions related to firm performance and future stock prices. This empirical investigation assists investors, stock exchange dealers, and brokers to predict the firm's performance and future stock prices through fundamental analysis to get more profit.

Telecommunication firm is one of the firm in Indonesia which greatly influences economic growth. In 1999 the growth rate of the telecommunications sector was still relatively small compared to the growth of other sectors, for example, the trade and manufacturing sector, but in 2008 the telecommunications sector was able to contribute up to 1.8 percent of gross domestic product (GDP). It is known that telecommunication firm listed on the Indonesia Stock Exchange are trying to dominate the Indonesian market, which is the largest in ASEAN. The development of information technology is growing rapidly, making people increasingly need information technology that suits the needs of each individual. With the existence of telecommunications which is growing rapidly in several countries today, many large firm have established telecommunication networks to make it easier for people to find and access all kinds of activities they need easily. The telecommunications industry can be said to be an industry that never dims. The use of smartphones in Indonesia is increasing and exceeding the total population of Indonesia, this has triggered the large and rapid growth of firm in the telecommunications sector. During the COVID-19 pandemic, the use of internet traffic and data is increasing because almost all activities are carried out from home.

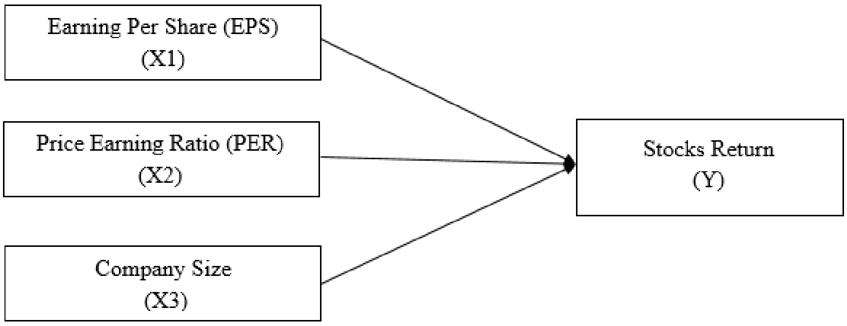

Fig. 1 Conceptual framework

H1: Earning Per Share has a positive effect on Stock Return
H2: Price Earnings Ratio has a positive effect on Stock Return.
H3: Firm size has a positive effect on Stock Return

II. RESEARCH METHODS

This research uses an associative quantitative approach. The research was conducted at telecommunication sub-sector firm listed on the Indonesia Stock Exchange (IDX) in 2014-2019. The telecommunication service firm is one of the infrastructure, utility, and transportation sub-sector firm listed on the Indonesia Stock Exchange which is increasingly growing and developing in Indonesia. This is also because in the future communication becomes a necessity that will make it easier for every community to provide and get information. This study selects the telecommunications sub-sector firm because, telecommunications firm are one of the firm in Indonesia that greatly affect economic growth (Sumampow & Murni, 2016). On the IDX, telecommunication sector firm are the most desirable sectors because these firm constantly produce innovations to advance their firm. The population used in this study were 6 telecommunications firm listed on the Indonesia Stock Exchange in 2014-2019. The period of this research was carried out in the last six years to obtain the latest data and get the expected results. The sample was selected by the purposive sampling technique. The criteria for determining the sample in this study are telecommunication sub-sector firm that are listed on the Indonesia Stock Exchange and publish annual financial reports in a row from 2014-2019. This research was conducted during the period 2014-2019 using annual financial reports, namely for 6 years with a total of 5 firm as samples so that the total observations in this study were 30 samples. The data collection method used in this study is a non-participant observation method with documentation techniques. The data analysis used in this research is multiple linear regression analysis.

Operational definition of the variable

Stock returns

In capital market theory, the rate of return received by investors from stocks traded in the stock market has been termed a return. Measurement of stock returns can be done with the following formula:

$$\boldsymbol{Rit = \frac{Pt - (Pt - 1)}{Pt - 1}}$$

R_{it} = The rate of return on stocks I in period t
P_t = The closing price of stock i in period t (end period)
P_{t-1} = The closing price of stock i in the previous period
”

Earnings Per Share

Earnings Per Share is the amount of income earned in one period for each stock outstanding. EPS measurement can be done with the formula:

$$\textbf{Earning Per Share} = \frac{\textbf{Net Profit After Tax}}{\textbf{Number of shares outstanding}}$$

”

Price Earnings Ratio

Price Earnings Ratio is a ratio used by investors to predict a firm's future ability to generate profits. PER measurement is very important because the amount of profit the firm will generate will determine the amount of dividends that can be paid in the future. can be measured by the formula:

$$\textbf{Price Earning Ratio} = \frac{\textbf{Stock price}}{\textbf{Earnings Per Share}}$$

Firm size

Firm size describes the size of a firm which can be seen from the size of the capital used, the total assets owned, or the total sales obtained. Determination of firm size can be calculated using the logarithm of total assets with the following formula:

$$\textbf{Firm Size} = \textbf{log Total Asset}$$

III. RESULTS AND DISCUSSION

Table 1. Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.775	0.748		2.374	0.025
EPS	0.001	0.000	0.403	2.312	0.029
PER	0.000	0.000	0.185	1.088	0.287
Firm Size	-0.056	0.026	-0.383	-2.159	0.040
Adjusted R Square = 0,207					
F = 3,526 Sig. = 0,029					

Table 1 indicate, The regression model has an F-value of 3.526 with a significant value of 0.029 which is smaller than α = 0.05. The significance value is smaller than the real level 0.029 <0.05. These results indicate that the regression model has a significant effect simultaneously between earnings per share, price earnings ratio and firm size on stock returns. The adjusted R square value is 0.207, which means that as much as 20.7% of the variance of the earning per share variable, price earnings ratio, and firm size can explain the stock return variable, while the remaining 79.3% is explained by other variables not included in the model. regression of this study.

Effect of Earning Per Share on Stock Return

The significance value is 0.029 with a β value of 0.001, this indicate that earning per share has a positive effect on stock returns. Thus the **first hypothesis (H1) is accepted**. Firm that have a high earning per share value show that the firm's ability to generate net profit after tax is increasing so that the stock returns that investors will receive will also increase. The greater the EPS value, the more interested investors will be to invest in stocks of telecommunications sub-sector firm. This makes the demand for the firm's stocks more and more so that it affects the price. The number of stocks that are requested, and the absence of a balanced supply of food will make the stock price increase. The more the firm's stock price increases, the more investors will get a bigger return. This research is under the signal theory which states that published information will provide a signal for investors in making investment decisions. The existence of a signal theory can help investors measure the management performance of the telecommunications sub-sector firm through earnings per share in creating market value. Earnings per share will be of great help to investors because EPS information describes a firm's future earnings prospects. The value of earning per share is a signal that can be used as a basis for investors in making investment decisions(Badruzaman, 2020).

Effect of Price Earnings Ratio on Stock Return

The significance value of is 0.287 with a β value of 0.000. These results indicate that the price earnings ratio does not affect stock returns so that **the second hypothesis (H2) is rejected**. The price earnings ratio has no effect on the telecommunications sub-sector firm, and there is no increase in investor confidence in the firm's future to trigger an increase in the firm's stock price, and if the price per share does not increase/decrease and the firm's profit growth rate does not increase, then price Earnings ratio also decreases so that stock returns will also decline. The results of this study are not following the signal theory which states that the increase in the value of the price earnings ratio is a signal for investors to benefit from investment activities. This is not appropriate, because not all investors who will invest see the value of the firm's price-earnings ratio, the high stock price does not support that the firm's performance will always increase in the future. The price earnings ratio becomes meaningless if the firm generates very low profits or suffers losses, in which case the firm's price-earnings ratio is so high or even negative(Wildatunjanah & Suparningsih, 2019).

The Effect of Firm size on Stock Returns

The significance value of firm size is 0.040 with β of -0.056. These results indicate that firm size has a negative effect on stock returns. Thus the **third hypothesis (H3) is rejected**. The test results that have a negative effect indicate that the total assets at the time of the publication of financial reports in 2014-2019 were not a concern of investors in making investment decisions during this observation period. Investors assume that large firm are not always able to provide a large rate of return and small firm do not rule out being able to provide a high rate of return. In investing, it does not only look at the firm from the size of the firm, but large firm do not always have a large total asset of the capital they have, this capital can come from loans that must be paid later which will result in a small return. Therefore, investors look more at market capitalization, high transaction value, financial conditions, and high growth prospects when investing in a telecommunications sub-sector firm rather than just looking at the size of the firm. This research is under the signal theory which states that the information provided to investors about the causes of the increase in firm size and the causes for the decrease in firm size, where this information can help investors see firm that have good prospects to start investing(Duy & Phuoc, 2016)

IV. CONCLUSION

Earnings per share has a positive effect on stock returns in telecommunications sub-sector firm listed on the Indonesia Stock Exchange (IDX) from 2014-2019. This is because high earnings per share indicate the firm's ability to generate a high net profit for each stock, so the return that investors will get will also increase. Thus, investor interest will increase to buy stocks in the firm. The price earnings ratio does not affect stock returns in telecommunication sub-sector firm listed on the Indonesia Stock Exchange (IDX) from 2014-2019.PER is influenced by stock prices and firm earnings per share. A low price earnings ratio means that the firm's stocks have a lower market price than their intrinsic value. Investors tend to choose firm that have a low PER value because they think a high PER value indicates an expensive stock price and does not match its intrinsic value. Firm size has a negative effect on stock returns in telecommunications sub-sector firm listed on the Indonesia Stock Exchange (IDX) from 2014-2019, firm that are large in size do not always have a large total asset of their capital, it could be that the capital owned by the firm is from the loan that must be paid later, resulting in a small return.

Suggestion

The firm must be able to increase its profit from year to year and have a stable and good financial performance because it will have an impact on future stock returns and affect investors' interest in investing in the firm. When investing in stocks using stock returns, investors should pay attention to the factors that affect a firm's stock return.

Further Research

For further researchers, other independent variables can be used to test stock returns such as corporate governance. The research object can be extended to other firm in the field of business.

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