

# The Effects of Earnings Per Share and Firm Size to Stock Price LQ45 Company Listed in Indonesian Securities

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## Abstract

This study was conducted by the firm that included the stock index of IDX (Indonesian stock exchange) consist of the 45 best stocks (LQ45 index companies) that are listed on the Indonesian Securities. This study aims to assess the effect of earnings per share and the firm size on stock prices. The purpose of this study is also to prove that the size of the firm can moderate the relationship between earnings per share and stock prices. By conducting a regression analysis, this study gives evidence that earnings per share and firm size have a significant effect on stock prices. The size of the firm is also able to moderate the relationship between earnings per share and stock prices. The results of this study gave evidence that profit and the size of the company can provide important information for investors in making decisions.

**Keywords:** Earning per Share, Firm Size, Stock Price.

## 1. Introduction

Many firms with poor financial performance have been unlisted in the bursary effect. In 2017 there are 8 firms that have been unlisted from the Indonesian stock exchange. A firm with a large asset base must have a financial performance that is comparable to the wealth possessed. In accordance with the basic equation in accounting, the greater the value of assets, the greater will be the value of capital owned. So management is required to use capital in developing firms and welfare of capital owners.

The financial report will give information about the firm's survival capability as the accounting information contained in the financial statements is beneficial to investors in terms of investment decision making (1). An investor should make an assessment of the performance of the company where he or she invests. The results of the performance appraisal can be used by investors as a basis for consideration in making investment decisions. So the investor's expectation to get maximum profit from the invested funds will be achieved. Profits obtained by investors can be seen from the profits generated company. The greater the profits earned by the company, the greater the profit for investors in the form of dividends will be. Large amount of profit will be an attraction for investors to buy shares of the company. As more investors develop interest to buy shares of the company, the result will give a positive effect on the company's stock market price.

Companies that have a high volume and frequency of stock transactions will become shares that are categorized as good shares. In addition, the company's financial condition and growth prospects are also the criteria to become a member of LQ45 stock group (Indonesia Stock Exchange, 2016). Companies that fall into the best performing group of companies (such as the LQ45 index) are constantly changing over each period. This change marks a fluctuation of stock trading in the market that affects the changes

in stock prices traded in the market. Stock prices may change over time, due to changes in the investment decisions of investors.

## 2. Theory

### 2.1 Signal Theory

Any action taken by the company will provide information to investors. Therefore, the company must provide positive information for investors' decisions to have a positive impact for the company. This is consistent with the signaling theory that management can take several policies to give a positive corporate signal to investors.

Each company seeks to maximize profits so as to improve investor welfare and trust. Earning describes the performance of management in generating profit to pay interest to creditors, investor dividends, and tax to the governments. Earnings information can also be used to estimate the ability of the company in generating future earnings and interpret the risks in investing. So profit becomes very positive information for investors, and investors will give a positive reaction to any improved earnings announcement. Kamisah et.al., (2) states that there is a positive relationship between the change in profit and stock prices. This suggests that investors consider earnings information in making decisions to invest.

### 2.2 Earning Per Share

Profit is the goal to be achieved by any company, i.e. Profit is often used as a basis for measuring company performance. For investors, companies that earn a profit means the company is able to improve the welfare of investors. Earning per share is the amount of profit based on the outstanding shares of the company. According to Kashmir (2012), earnings per share is the ratio used

to measure the success of management in achieving profit for shareholders.

The success of management in administrating the capital can be seen from its success in generating profit. Because with the profits obtained, the management is able to improve the welfare of the stakeholders.

### 2.3 Company size

The size of a company that can be determined by the amount of wealth owned by the company. Hendriksen (3) defines that firm size is the whole of the assets owned by a company that can be seen from the left side of the balance sheet.

## 3. Hypotheses

### 3.1 Earning Per Share

Before making a decision an investor needs some information to be considered. The most favored information by investors is information about earnings, because if the company earns profit, then the company will provide welfare to shareholders or investors. According to Kamisah et.al., (2) there is a positive relationship between changes in earnings and stock prices. With increasing investor interest, the company's stock is expected to increase the company's stock price.

Different results have been found by Rashidul (4), explaining that stock price movements are not in parallel with EPS movements. High EPS is not able to make the investor interest in buying the stock of the firm. As such, the hypothesis in this research is:

**H<sub>1</sub>:** Earning Per Share has a positive and significant impact on stock prices.

### 3.2 Company Size

Research on firm size by Rudangga (5) shows that firm size has a significant positive effect on firm value. However, Khaira (6) states that size firm has no effect on the performance of the firm. The contradiction in findings from past researches compel this research to be conducted to test the effect of firm size on the stock price of LQ45 stock group in Indonesia. The findings of this study will provide recommendations to investors and users of other financial report information, whether firm size can be taken into consideration in making investment decisions or not.

**H<sub>2</sub>:** firm size has a positive and significant influence on stock prices

Large companies in most cases have a large amount of wealth as well. With the large amount of corporate wealth it will have an impact on the assessment of investors and instill confidence in the company's ability to return funds that have been invested. Thus, the following hypothesis is proposed:

**H<sub>3</sub>:** firm size is able to moderate the Earning Per Share relationship to stock prices

## 4. Research Methodologi Top of From

### 4.1 Data Collection

The data in this study use secondary data that are taken from 45 samples of LQ45 firms enlisted in Indonesia bursary effect. The share price is determined using the closing stock price as of April 30 of each research period. While to assess the EPS used EPS value that has been listed in the financial statement at the end of the period per December 31 each period of study. The following formula is used to calculate the firm size in this research:

### 4.2 Data Analysis

The analysis in this study using regression analysis with the formula:

$$Y = a + b_1x_1 + b_2x_2 + e \dots\dots\dots \text{Model 1}$$

To determine whether firm size is a moderating variable in the relationship between EPS and the stock price used the formula:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_1 * x_2 + e \dots\dots\dots \text{Model 2}$$

Where:

Y = Share Price (P)

X<sub>1</sub> = Earning Per Share (EPS)

X<sub>2</sub> = Firm Size (SIZE)

X<sub>1</sub>\*X<sub>2</sub> = Moderation SIZE and EPS

a = constants

b<sub>1,2,3</sub> = Coefficients

e = Error

## 5. Discussion

To know the ability of models that have been made by researchers by looking at the value coefficient of determination (R<sup>2</sup> Square). For example, an R<sup>2</sup>, Square value of 0.307 or equal to 30.7%, implies that the independent variable is able to explain 30.7% of the variation while the remaining 69.3% can be explained by another variable not examined in this research.

### 5.1 Earning Per Share (EPS) to Stock Price

Table 1 shows the test results of LQ45 company stock price against earnings per share and company size.

**Table 1.** Result Regression

| Model        | Unstandardized Coefficients |            | Standardized coefficients<br>Beta | T      | sig  |
|--------------|-----------------------------|------------|-----------------------------------|--------|------|
|              | B                           | Std. Error |                                   |        |      |
| 1 (Constant) | 22.850                      | 9.943      |                                   | -2.298 | .027 |
| EPS          | 4.530                       | 1.740      | 8.746                             | 2.603  | .013 |
| Size         | 0.968                       | .322       | .971                              | 3.004  | .005 |
| EPS_Size     | -0.138                      | .056       | -8.464                            | -2.457 | .018 |

Based on Table 1 it can be seen that earnings per share (EPS) has a significant influence on stock prices based on the p-value of 0.013. So the hypothesis H<sub>1</sub> can be accepted. In addition, the results of this research provide evidence that EPS has a positive relationship with the stock price. This is accordance with (2,7) which states there is a positive relationship between changes in earnings and stock prices. The finding of this research indicates that raising profit has a negative effect on the stock price.

Earning per share is information that greatly affects stock prices, which indicates that profit information becomes a positive signal for investors. Investors tend to react more positively to the announcement of earnings information that contains increasing income as per the study by Dwiadnyana (8). Similarly, as explained by Belkaoui (9,10), profit is considered as a predictor that helps in forecasting earnings and economic events of the future.

### 5.2 Firm Size to Stock Price

The firm size has significant value of 0.005<0.05, so it can be concluded that the size of the firm has a significant effect on stock prices. This H<sub>2</sub> can be proven. The results of this study accordance with the research conducted by Hantono (11) which states that the size of the firm affect on the stock price. Likewise Rudangga (5) explained that the size of the firm has a positive and significant impact to the value of the firm. However, these findings are not in accordance with Nadiyah (12) which states the size of the firm has no significant effect of the return of stock.

### 5.3 Firm size moderates the relationship of EPS and stock price

**Table 2.** Coefficient Determination

| Model | R Square |
|-------|----------|
| 1     | .307     |
| 2     | .441     |

Based on table 2 we can see the value of R square on test model 1 and model 2 testing. The second regression model test obtained R square value of 0.441 or 44.1%. Where the value of the R square second model is greater than the value of R square in the first model. This shows that the size of the firm is able to moderate the relationship between earnings per share (EPS) and stock prices. So  $H_3$  can be proven. From the test results also known that the independent variable simultaneously able to influence the dependent variable significantly. It is characterized by a significance value of  $0.000 < 0.05$ .

## 6. Conclusion

This study provides some findings, the first is that earnings per share has a positive and significant effect to stock prices by using a sample company LQ45. This provides evidence that the profits are a positive signal for investors and very important as a consideration for investors in making decisions to invest. Secondly, this study found that firm size also has the same effect as earnings per share. The third finding is that firm size is able to moderate the relationship between earnings per share and stock prices. So for investors who want to invest is strongly recommended to make earnings per share and the size of the firm as a consideration in making decisions.

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