



# The Influence of Net Profit Margin, Return on Asset, Current Ratio, Price Earning Ratio, Solvency Ratio on Market Price

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## ABSTRACT

This study aims to analyze the influence of Profit Margin, Return on Assets, Current Ratio, Solvency Ratio on Market Price. Information about company share prices is related to these 5 variables. The data used in this research is the Consumer Good Industry Company (CGIC) which has complete data related to these variables so that the sample obtained is 13 companies in 2019-2022. The data analysis technique used in this research is the selection of a panel data regression model with the Chow test, Hausman test, large range multiplier (LM) test, and parameter significance test. The test results can be concluded that Net Profit Margin (NPM) has a significant effect on Market Price (MP) while Return on Assets (ROA), Current Ratio (CR), Price Earning Ratio (PER), Solvency Ratio (SR) do not have a significant effect on Market Price (MP).

## INTRODUCTION

The Customer Good Industry Company (CGIC) is one of the companies listed on the Indonesian Stock Exchange (BEI). Apart from that, CGIC also sells more shares or securities in circulation compared to other companies listed on the Indonesian Stock Exchange. CGIC continues to strive to increase profits by mature strategy and planning so that it can compete with other public companies, especially those listed on the Indonesian Stock Exchange. The increasing number of companies going public will benefit potential investors because potential investors will have many alternatives in making investment decisions in companies that perform well (Mahdi & Khaddafi, 2020).

Indonesia's stock market is expected to grow rapidly. The growth of capital markets will allow more companies to be publicly available and listed on stock markets to raise money through public ownership rather than through banks. Industry can obtain the necessary financial profits by selling its holdings to the public, without paying fixed interest to the banks that lend the money. The stock market is an ideal mechanism and place for people who are interested in investing without spending a lot of money (Ery Yanto et al., 2021). Stock price is an important factor to consider for investors, creators, and other stakeholders (Bustani et al., 2021).

Research conducted by Choiriyah et al., (2021); Saputra, (2022); Sha, (2017) says that Net Profit

Margin (NPM) has no significant effect on Market Price (MP) while research by (Ono Tarsono, 2021) says that Net The company's Profit Margin (NPM) has a significant positive effect on manufacturing stock prices. Research related to the influence of Return on Assets (ROA) on Market Price (MP) has several results, including research by Choiriyah et al., (2021); Daniswara & Daryanto, (2019); Saputra, (2022) which says that ROA has no significant effect on MP while research by Bustani, (2020) says that ROA has a significant effect on MP. Research by Aletheari & Jati, 2016; Kumar, 2017) says that the Price Earning Ratio (PER) has a significant impact on market predictions of stock prices of selected companies in the automotive sector as a whole while research by Risdanya & Zaroni, 2016) says that PER has no significant effect on MP.

Current Ratio (CR) to Market Price (MP) also has several differences in research results, including research by (S et al., 2020, Yanto et al., 2021, (Ery Yanto et al., 2021; Melina & Steffani, 2022; Satryo et al., 2017)) which says that CR has a positive influence on MP while research Hayati et al., (2019) says that CR has a negative influence on MP.

The influence of the relationship between Sovency Ratio (SR) and Market Price (MP) also has several results, including research (Raj & Putri, 2021; Satryo et al., 2017) which states that Solvency Ratio (SR) does not have a significant relationship with Market Price (MP) while research by (Fahriyana & Puspitarini, 2023) says that SR has a positive relationship with MP.

Based on this description, it can be concluded that CGIC is a company that sells more shares so that competition for share sales on the Indonesian Stock Exchange (BEI) is getting tighter. This requires careful planning and calculations so that companies can emerge their competitive advantages. The inconsistency of previous research is also the reason why researchers are interested in conducting research. The aim of this research is to determine the effect of net profit margin, return on assets, current ratio, price earnings ratio, solvency ratio on market price. It is hoped that the contribution of this research can contribute to further research and can be used by CGIC to make policies in planning share price sales.

## METHODS

This research uses a quantitative approach with the type of data used is panel. The panel data in this study is a combination of cross section data from 13 companies and time series data from 2019 to 2022 on the Consumer Good Industry Company (CGIC0. This data has gone through a data cleaning process to eliminate outliers. So the total sample in this study is 52 samples.

Analysis Techniques for Selection of Panel Data Regression Models: There are several models to be selected, including Pooled Least Square (PLS), Fixed Effects Model (FEM), and Random Effects Model (REM). To select the best model, the following tests are carried out, namely Chow Test, Hausman Test, Lagrange Multiplier (LM) Test. Meanwhile, for the Parameter Significance test, use Simultaneous and Partial Tests

## RESULTS

### Descriptive statistics

The descriptive statistics in this study are as follows. The variables used in this research include MP, PM, ROA, CR, PER, and SR.

**Table 1. Descriptive Statistical Test Results**

Variabel	Obs	Mean	Std. Dev	Min	Max
MP	52	2770.64	2814.58	254	10000
PM	52	9.76	5.73	0.24	23.32
ROA	52	10.86	5.86	0.28	23.86
CR	52	2.45	1.45	1.2	9.95
PER	52	22.93	23.71	4.61	169.01
SR	52	58.56	14.97	28.86	90.21

Source: STATA 14 Estimation Results, processed data (2023)

From this table it can be seen that the highest average value is owned by MP at 2814.58. Meanwhile, CR has the lowest average value of 1.45. The largest standard deviation is owned by MP, which indicates that there is quite large (heterogeneous) variation in the data. From all the data, the MP variable has the highest value compared to other variables.

### Selection of Panel Data Regression Models

#### Chow test

The chow test results of this research are shown in the following table.

**Table 2. Chow Test Results**

Result	
F(12, 34)	120.46
Prob > F	0.0000

Source: STATA 14 Estimation Results, processed data (2023)

The results of the Chow Test show that the Prob>F value is less than  $\alpha$  ( $0.0000 < 0.01$ ). Therefore  $H_0$  is rejected. So the appropriate model is the FEM model.

#### Hausman test

The Hausman test results of this research are shown in the following table.

**Table 3. Hausman Test Results**

Result	
chi2(5)	4.30
Prob>chi2	0.5076

Source: STATA 14 Estimation Results, processed data (2023)

In this test it can be seen that the Prob>F value is more than  $\alpha$  ( $0.5076 > 0.01$ ). So  $H_0$  is accepted. This means that the REM model is selected.

#### Lagrange Multiplier (LM) Test

The Lagrange Multiplier test aims to choose between the PLS model and the REM model. The results of the Lagrange Multiplier Test are as follows.

**Table 4. Lagrange Multiplier (LM) Test Results**

Result	Breusch and Pagan Lagrangian multiplier test for random effects
chibar2(01)	58.33
Prob > chibar2	0.0000

Source: STATA 14 Estimation Results, processed data (2023)

Based on these results, the Prob>F value is less than  $\alpha$  ( $0.0000 < 0.01$ ). Therefore  $H_0$  is rejected. So the conclusion is that the REM model was chosen.

From the three tests, it can be concluded that the REM model is the best model in this research where the REM model is a model based on the GLS (Generalized Least Squared) model. The resulting estimator is called GLS Estimators. This estimator is BLUE (Gujarati, 2014).

#### Parameter Significance Test

After selecting the best model, the next stage is to carry out a parameter significance test (feasibility test). The significance test for this parameter is divided into two, namely simultaneous test and partial test. The estimation results of the selected model, namely the REM model, are shown in Table 5.

**Table 5. REM Model Estimation Results**

Variable	Coefisien	Std. Err	z	P> z
Variable independent				
Constanta	6.65493	0.40219	16.55	0.000*
PM	0.03329	0.01598	2.08	0.037**
ROA	-0.00798	0.01347	-0.59	0.554
CR	0.02478	0.0322	0.77	0.442
PER	0.00129	0.00121	1.07	0.284
SR	0.00827	0.00556	1.49	0.137
Variable Dependent: lnMP				
R-sq	0.2074			
Prob>chi2	0.055			

\*indicates significant at the 1% level, \*\*indicates significant at the 5% level,

Source: STATA 14 Estimation Results, processed data (2023)

### Simultaneous Test

This test can be done by looking at the value of Prob > chi2. In Table 4 it can be seen that the Prob > chi2 value is less than  $\alpha$  ( $0.055 < 0.10$ ). So H0 is rejected. This means that in this study there is at least one variable that influences MP.

### Partial Test

The partial test in this study uses  $\alpha$  1% and 5%. These results indicate that the constant is significant at the 1% level. The partial test results of this research are as follows.

1. First Hypothesis: PM p-value <  $\alpha$  ( $0.037 < 0.05$ ). So H0 is rejected. This means that PM has a significant effect on MP.
2. Second Hypothesis: The ROA p-value >  $\alpha$  ( $0.554 > 0.10$ ). So H0 is accepted. This means that ROA does not have a significant effect on MP.
3. Third Hypothesis: CR p-value >  $\alpha$  ( $0.442 > 0.10$ ). So H0 is accepted. This means that CR has no significant effect on MP.
4. Fourth Hypothesis: PER p-value >  $\alpha$  ( $0.284 > 0.10$ ). So H0 is accepted. This means that PER has no significant effect on MP.
5. Fifth Hypothesis: SR p-value >  $\alpha$  ( $0.137 > 0.10$ ). So H0 is accepted. This means that SR has no significant effect on MP.

The R-Squared coefficient shows a value of 0.055. This means that 5.5% of MP is influenced by PM, ROA, CR, PER, and SR, while 94.5% is influenced by other variables.

### Influence of PM on MP

The first variable is PM, where this variable has a significant effect at the 5% level. The PM coefficient value is 0.03329 which contains meaning that when PM rises by 1 percent, MP will increase by 3,329 rupiah assuming other variables are constant. The results of this research are in accordance with research research by (Ono Tarsono, 2021) which states that a company's Net Profit Margin (NPM) has a significant positive effect on manufacturing stock prices.

### Influence of ROA on MP

The second variable is ROA, where this variable is not significant in influencing MP. This finding is in line with research by (Choiriyah et al., 2021; Daniswara & Daryanto, 2019; Saputra, 2022) which states that ROA has no significant effect on MP.

### Effect of CR on MP

The estimation results show that CR has no significant effect on MP. These results are in accordance with research research Hayati et al., (2019) which states that CR has a negative influence on MP

### **Influence of PER on MP**

The results of this study indicate that PER has no significant effect on MP. These results are in accordance with research Risdanya & Zaroni, (2016) which states that PER has no significant effect on MP

### **Effect of SR on MP**

In line with ROA, CR and PER, the SR variable also has no significant effect on MP. This result is the same as findings from research Raj & Putri, (2021); Satryo et al., (2017) which states that the Solvency Ratio (SR) does not have a significant relationship with Market Price (MP)

## **CONCLUSION**

In summary, the rigorous application of statistical tests, such as the Chow test, Hausman test, and Lagrange Multiplier test, collectively endorses the Random Effects Model (REM) as the most fitting analytical framework for the dataset. This robust selection process underscores the researchers' commitment to choosing a model that best accommodates the inherent complexities and heterogeneities present in the data.

Zooming in on the individual variables under investigation, the findings elucidate a nuanced interplay between financial metrics and Market Price (MP). Profit Margin (PM) emerges as the standout variable, exhibiting a statistically significant and positive impact on MP. The result underscores the pivotal role that profit margins play in shaping investor perceptions and influencing stock prices. This aligns with the findings of (Ono Tarsono, 2021), reinforcing the notion that a company's Net Profit Margin (NPM) is a key determinant of its market valuation.

In contrast, other variables—Return on Assets (ROA), Current Ratio (CR), Price to Earnings Ratio (PER), and Solvency Ratio (SR)—fail to attain statistical significance in explaining variations in MP. The study sheds light on the nuanced relationship between these financial indicators and market dynamics, challenging the conventional wisdom regarding their direct impact on stock prices. These results harmonize with previous research by (Handito & Mardawiyah, 2019; Saputra, 2022; Choiriyah et al., 2021) for ROA, (Hayati et al., 2019) for CR, (Risdanya & Zaroni, 2015) for PER, and (Raj & Putri, 2021; Satryo et al., 2017) for SR.

The simultaneous test, however, suggests that collectively, the variables wield a significant influence on MP. This implies an interconnectedness among these financial metrics, reinforcing the idea that investors consider a combination of factors in evaluating a company's market worth. While the REM model provides valuable insights into the determinants of MP, it's crucial to acknowledge the study's limitations. The R-squared coefficient of 0.055 indicates that only approximately 5.5% of the variation in MP can be explained by the considered variables, leaving a substantial portion unaccounted for. This underscores the complexity of market dynamics and encourages future research to explore additional factors contributing to market price fluctuations. In conclusion, this study not only advances our understanding of the factors influencing Market Price but also prompts further exploration into the intricate relationships between financial metrics and market valuations. The identification of Profit Margin as a significant factor underscores its pivotal role in shaping investor sentiment. Future research endeavors should delve deeper into the unexplained variance in MP, providing a more comprehensive perspective on the multifaceted nature of financial markets.

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