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The Effect of Economic Value Added and Profitability Ratio on Stock Prices in the Banking Sub-Sector on the Indonesia Stock Exchange (2019–2023)

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A B S T R A C T

This study aims to examine the effect of Economic Value Added (EVA) and profitability ratio on stock prices in banking sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2019–2023 period. The method used is a quantitative approach with multiple linear regression analysis. The research sample consisted of 24 companies with a total of 120 annual observations, selected through purposive sampling techniques. The results of the analysis show that partially, EVA has no significant effect on stock prices, while Net Profit Margin (NPM) has a positive and significant effect. Simultaneously, EVA and NPM have a significant effect on stock prices. The Adjusted R^2 value of 0.239 indicates that 23.9% of the variation in stock prices can be explained by the two independent variables. This finding indicates that investors consider easily accessible profitability indicators such as NPM in making investment decisions, while EVA has not been a primary consideration. The implications of this study are the importance of companies maintaining operational efficiency and profitability to attract investors, as well as the need for investor education regarding the use of EVA indicators as a more comprehensive performance evaluation tool.

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INTRODUCTION

The capital market has an important role in supporting economic growth, especially as a source of long-term financing for companies. In Indonesia, the Indonesia Stock Exchange (IDX) functions as the main platform that brings together investors and issuers through trading various financial instruments, one of which is stocks. Stocks are an attractive investment choice because they provide two potential benefits, namely dividends and capital gains. Dividends are part of the company's profits that are distributed to shareholders, while capital gains are obtained from the difference between the purchase price and the selling price of shares in the secondary market (Kasmir, 2019).

Stock prices reflect the market's perception of a company's value. Therefore, investors pay close attention to the factors that affect stock prices when making investment decisions. One approach to assessing a company's performance is to use financial indicators. A company's financial performance can be analyzed through a variety of methods, including financial ratios and the Economic Value Added (EVA) method.

Economic Value Added (EVA) is an indicator that measures how much economic added value a company generates after accounting for capital costs. EVA is calculated by subtracting the cost of capital from net operating profit after tax (Brigham & Houston, 2021). In the context of investment, a positive EVA indicates that the company is able to create value more than just covering the cost of capital, so it is considered a positive signal for investors. In contrast, a negative EVA reflects the company's inability to generate added value. In addition to EVA, financial ratios, especially profitability ratios, are also important measurement tools in evaluating company performance. The profitability ratio shows the company's ability to generate profits from its operational activities. One of the ratios that is often used is Net Profit Margin (NPM), which is a comparison between net profit and sales. This ratio reflects the company's efficiency in managing costs and generating profits (Kasmir, 2019).

Stock prices can be affected by a variety of internal and external factors. Internal factors include the company's financial condition, management, and business prospects, while external factors can be in the form of macroeconomic conditions, government policies, and political stability (Takarini, 2022). In signal theory, information conveyed by a company to the public, such as financial statements and performance indicators, can be a signal to assess the value of the company. Positive signals, such as increased profits or high EVAs, tend to increase investor confidence and drive up stock prices (Brigham & Houston, 2021).

However, previous studies have shown mixed results regarding the effect of EVA and profitability ratios on stock prices. Research by Lukman and Soliqin (2019) found that EVA has a significant positive effect on the stock price of property companies. In contrast, studies from Choky et al. (2020) and Parhusip et al. (2021) concluded that EVA does not have a significant influence on stock prices in the financial and manufacturing sectors. On the other hand, profitability ratios such as ROA and EPS have been proven to have a significant effect on stock

prices in studies conducted by Muhidin and Situngkir (2022) and Putri and Ramadhan (2023).

Based on this description, this study aims to empirically examine the effect of Economic Value Added (EVA) and profitability ratio on stock prices in banking sub-sector companies listed on the Indonesia Stock Exchange during the 2019–2023 period.

LITERATURE REVIEW

1. Economic Value Added (EVA)

EVA is a modern approach to measuring financial performance developed by Stern Stewart & Co. The basic concept of EVA is that a new company truly creates added value if the profit generated exceeds its cost of capital. The basic formula for EVA is:

$$EVA = NOPAT - (WACC \times Invested\ Capital)$$

Where:

a. NOPAT: Net Operating Profit After Tax
b. WACC: Weighted Average Cost of Capital
c. Invested Capital: Total capital used by the company for operations (Brigham & Houston, 2021).

According to Sobahi et al. (2019), a positive EVA value indicates that the company is able to generate profitable economic added value for shareholders. This means that the operating profit earned is not only sufficient, but also exceeds the capital costs incurred by the company. Conversely, if the EVA value is negative, it reflects that operating profits have not been able to cover the cost of capital, so the company has not created optimal economic value. This condition can be an indicator of financial performance that is less efficient in the use of capital resources owned.

2. Profitability Ratios

The profitability ratio is used to measure the level of profit a company makes in a given period. One of the main ratios that is often used is Net Profit Margin (NPM), which is the ratio between net profit and total sales, which is calculated by the formula:

$$NPM = (Net\ Profit / Sales) \times 100\%$$

This ratio shows how much profit the company makes from every rupiah of sales after all operating costs are deducted. The higher the NPM value, the more efficient the company is in managing costs and able to generate greater profits from its sales activities (Kasmir, 2019). In other words, NPM reflects the effectiveness of the operational and cost control strategies implemented by the company's management.

3. Stock Price

Stock price is the market value of a stock at a certain time that is formed through the mechanism of interaction between supply and demand in the capital market. The value of these shares is often used as a benchmark for the company's success in providing added value for shareholders (Parhusip et al., 2021). The higher the stock price, generally reflects investor confidence in the company's prospects and performance.

According to Takarini (2022), stock price movements are influenced by various factors, both from inside and outside the company. Internal or fundamental factors include profitability, liquidity, and solvency levels, which reflect the company's ability to generate profits, meet short-term obligations, and maintain long-term financial health. On the other hand, external factors such as macroeconomic conditions, interest rates, inflation, and market sentiment also play an important role in influencing investor perception. Changes in these factors can drive stock price fluctuations, so investors need to consider them in their investment decisions.

4. Signaling Theory

Signaling theory explains that company managers have more information about the company's internal conditions compared to outsiders such as investors. Therefore, they can send signals through public information to reduce information asymmetry. Positive signals, such as financial reports showing high profitability or positive EVA, can increase investors' perceptions of the company's value (Brigham & Houston, 2021).

METHODOLOGY

This research was conducted with a quantitative approach using multiple linear regression analysis methods as a data analysis tool. The focus of the population in this study is all companies included in the banking sub-sector and listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2023. To determine the sample, the purposive sampling technique is used, which is a method of selecting samples based on certain criteria that are relevant to the purpose of the study.

This technique was chosen so that only companies that meet certain requirements are analyzed, so that the results of the research become more targeted and representative. The selection criteria usually include the completeness of financial statements during the observation period, the status of companies actively listed on the IDX, and consistency in disclosing the variables needed in the research. This approach aims to ensure the quality and validity of the data used in the analysis.

a. Registered on the IDX during the study period
b. Consistently publishing annual financial reports.
c. Having complete data related to EVA, NPM, and stock prices.

From the existing population, 24 companies were obtained with a total of 120 annual observations.

1. **Research Variables**

a. Dependent variable: Stock price (Y), measured based on the annual closing price.
b. Independent variables:
    a) X1: Economic Value Added (EVA), calculated from NOPAT minus the cost of capital.
    b) X2: Net Profit Margin (NPM), which is net profit divided by sales.

2. **Analysis Method**

Data analysis was performed using SPSS software version 25. The classical assumption test was performed first (normality, multicollinearity, autocorrelation, and heteroscedasticity) to ensure the feasibility of the model. Regression formula:

$$Y = \alpha + \beta 1EVA + \beta 2NPM + \varepsilon$$

RESULTS AND DISCUSSION

1. **Descriptive Statistics**

Descriptive statistics aim to provide an initial overview of the characteristics of the data used in this study. Based on the results of the analysis of 120 observations consisting of 24 banking sub-sector companies during 2019 to 2023, the following statistical summary was obtained:

a. Stock Price shows a minimum value of IDR 150, - and a maximum of IDR 13,500, - with an average of IDR 3,850, -. The standard deviation of IDR 2,850, - reflects a fairly large variation between companies. This indicates a disparity in capitalization and market perception of each company.
b. EVA has a minimum value of -Rp7,620,000,000 and a maximum of Rp5,800,000,000, with an average of Rp860,000,000. This range shows that not all companies are able to generate economic added value every year.
c. Net Profit Margin (NPM) varies from -21% to 38%, with an average of 7.5%. This reflects differences in operational efficiency between companies, where some banks even experience losses (negative NPM).

2. **Classical Assumption Test**

The regression model in this study is first tested to ensure that the basic assumptions of regression are met, so that the results of the analysis can be validly interpreted:

a. The Normality Test was carried out using the Kolmogorov-Smirnov method which showed a significance value of 0.153 (> 0.05). This indicates that the residual data is normally distributed, which is one of the main requirements in regression analysis.
b. The Multicollinearity test showed that all independent variables had a Variance Inflation Factor (VIF) value below 10 (EVA = 1.088; NPM = 1.088) and Tolerance value greater than 0.1. This indicates that there are no problems of multicollinearity, or very high relationships between independent variables, that could interfere with the accuracy of the model.
c. The Autocorrelation test using the Durbin-Watson method yielded a value of 1.932. This value is between the upper limit (du) and 4-du, so it can be

concluded that there is no autocorrelation in the data, which means that the residual of one observation does not correlate with the residual of the other.

d. The Heteroscedasticity test was performed using the Glejser method, where the results showed a significance value for both independent variables greater than 0.05. This indicates that the residual variance is homogeneous, or in other words, there are no symptoms of heteroscedasticity.

3. Multiple Linear Regression Results

To determine the influence of the variables EVA (X1) and NPM (X2) on the stock price (Y), a multiple linear regression model was used. This model allows simultaneous or partial testing of the influence of both independent variables on the dependent variables. Based on the results of the analysis, the regression equation is obtained as follows:

$$Y = 2431{,}89 + 0{,}007EVA + 1{,}308NPM$$

Based on the test results:

a. EVA coefficient of 0.007 with a significance value of 0.780 (> 0.05) indicates that EVA does not have a significant effect on stock prices.
b. NPM coefficient of 1.308 with a significance value of 0.000 (< 0.05) indicates that NPM has a significant positive effect on stock prices.

4. Simultaneous Test (F Test)

The calculated F value of 8.621 with a significance of 0.000 (< 0.05) indicates that EVA and NPM simultaneously have a significant effect on stock prices.

5. Determination Coefficient (R2)

An Adjusted R^2 value of 0.239 indicates that the 23.9% variation in stock price can be explained by two independent variables in this model, namely EVA and NPM. This means that the contribution of these two variables to stock price changes is quite limited. Meanwhile, the remaining 76.1% was influenced by other factors that were not included in this research model. These external factors can include interest rates, inflation rates, solvency ratios, political stability, global economic conditions, and market sentiment. This illustrates that stock prices are complex and are greatly influenced by macro and microeconomic dynamics beyond the company's internal financial indicators. Therefore, further analysis by including additional variables can provide a more comprehensive understanding of stock price movements.

DISCUSSION

The results of the study show that the EVA variable does not have a significant effect on the stock price of companies classified as the banking sub-sector. These findings indicate that market participants have not fully made EVA the main reference in assessing a company's performance. This is in line with previous findings made by Parhusip et al. (2021) and Choky et al. (2020), where EVA also did not have a significant influence on stock price movements.

In contrast, the profitability ratio represented by Net Profit Margin (NPM) has been shown to have a significant positive influence on stock prices. These

findings suggest that investors tend to consider simpler, easy-to-understand, and regularly presented financial indicators in financial statements such as a company's net profit and operational efficiency. These results are reinforced by research by Putri and Ramadhan (2023), and Jayanti and Lestari (2020), which states that profitability ratios such as NPM and EPS significantly affect the value of a company's shares in the capital market.

The implication of this finding is the importance of companies increasing efficiency and maintaining profitability levels as part of a strategy to attract investors. On the other hand, investors should not only rely on conventional ratios such as NPM, but also start considering more comprehensive indicators such as EVA.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

1. Economic Value Added (EVA) does not have a significant effect on stock prices in banking sub-sector companies on the IDX.
2. Net Profit Margin (NPM) has a positive and significant effect on stock prices.
3. Simultaneously, EVA and NPM have a significant effect on stock prices.

Implications

Investors **are** advised to use profitability ratios such as NPM as the main consideration in assessing the prospects of banking company stocks. On the other hand, company management can use EVA as an internal evaluation tool.

Limitations

The study used only one type of profitability ratio and was limited to one subsector. The addition of macroeconomic variables and comparisons between subsectors can be material for further research.

Conclucion

Further research is recommended to expand the financial indicators used, as well as consider external factors such as inflation, interest rates, and macroeconomic stability which also influence stock prices..

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