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Analysis of Financial Fundamental Factors and Systematic Risks on Stock Prices of Pharmaceutical Companies Listed on the Indonesia Stock Exchange 2010-2019

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ABSTRACT

The study aims to analyze fundamental financial factors and systematic risks to the share prices of pharmaceutical companies listed on the Indonesia stock exchange. This study uses the company's share price as a dependent variable and returns on *Return on Equity* (ROE), *Earning Per Share* (EPS), *Price Earning Ratio* (PER), *Price to Book Value* (PBV), *Debt to Equity Ratio* (DER) and Beta stock as independent variables. Samples were taken as many as nine pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) in 2010-2019. The data used in the financial statements of each sample company, published through www.IDX.co.id and www.financeyahoo.com. The analysis method used in this study is a quantitative method, with classic assumption testing and statistical analysis that is multiple linear regression analysis using a *standard effect model*. The sampling method used is saturated sampling. The analysis results showed that the financial ratio consisting of ROE, DER, and the Beta stock had a negative effect and did not significantly affect the stock price. EPS has a negative and significant effect on the stock price, while PER and PBV have a positive and insignificant effect on the stock price.

Keywords: *Return on Equity (ROE), Earning Per Share (EPS), Price Earning Ratio (PER), Price to Book Value (PBV), Debt to Equity Ratio (DER), Beta Stock and Stock Price*

INTRODUCTION

Stock prices can affect the supply and demand for stocks. If the stock price increases, the purchasing power of investors will decrease so that the number of requests for shares will also decrease, and vice versa (Puspita and Yuliari, 2019). Therefore the company must maintain and improve the company's performance. One of the company's goals is to maximize profitability and increase the company's value so that the company can compete and the company's goals can be achieved.

The capital market is a market for various long-term financial instruments that can be traded, debt securities, equity (shares), derivative instruments, or others which are a means of funding for companies and other institutions and as a means of activity for investing activities. Become facilities and infrastructure for buying and selling activities and other activities (Hidayat, 2019). One of the investments made in the capital market today is investing in stocks. Investors have a motive in investing in the stock market, namely to obtain returns in the form of dividends or capital gains and company ownership. Before investing, investors will consider the return on shares they will receive and the company's value. The following is an overview of the stock price movements of Pharmaceutical companies listed on the IDX during 2010 – 2019.

Table 1. Pharmaceutical Company Share Prices 2015-2019

No	Company	Stock Price				
		2015	2016	2017	2018	2019
1.	PT Darya Varia Laboratoria Tbk	1.300	1.755	1.960	1.940	2.250
2.	PT Indofarma (Persero) Tbk	168	4.680	5.900	6.500	870
3.	PT Kimia Farma (Perseroan) Tbk	870	2.750	2.700	2.600	1.250
4.	PT Kalbe Farma Tbk	1.320	1.515	1.690	1.520	1.620
5.	PT Merck Indonesia Tbk	6.775	9.200	8.500	4.300	2.850
6.	PT Pyridam Farma Tbk	192	200	183	189	198
7.	PT Tempo Scan Pasific Tbk	1.750	1.970	1.800	1.390	1.395
8.	PT Merck Sharp Dohme Pharma Tbk	26.583	29.000	29.000	29.000	29.000
9.	PT Millenium Pharmacon International Tbk	68	92	110	95	95
Average		4.336	5.685	5.760	5.282	4.392

Source : idx.co.id

Table 1 shows that the average stock price from 2012-2017 has increased, but in 2018-2019 it decreased. This decline occurred because, during that period, several pharmaceutical sectors experienced a decline in profits. Compared to the assets owned, the debts of these companies are even greater. It affects the interest of investors to invest, which also affects the movement of stock prices. The phenomenon of rising and falling stock prices of pharmaceutical companies over the last five years indicates that the stock returns obtained by investors from these companies have not been optimal. It means that the realization of stock profits is not following the profits expected by investors. This condition can undoubtedly affect the behavior of investors in determining their preferences in investing in the capital market. Given that the main motive of investors investing in companies that go public is to get maximum profit.

The stock price is the price on the actual market and is the most accessible price to determine because it is the price of a stock in the ongoing market, or if the market is closed, then the market price is the closing price (Azis, M. et al., 2015). The stock price is one measure of investor interest in investing in a company to see the value (Admi et al., 2019). The stock price is an essential factor and must be considered by investors in investing because the stock price indicates the issuer. That is, the stock price is one indicator of the success of management in managing the company (Loist, 2019).

The ups and downs of stock prices can be seen from how high the level of demand and supply activity is on the stock itself (Septian et al., 2021). If investors who want to buy or keep a stock increase, the stock price will increase. However, if there is an increase in investors who will sell or release a stock, the stock price will decrease. Thus, investors must be able to predict these risks. To overcome the risks faced by changes in stock prices, an investor can use the information contained in the financial statements in assessing the company's financial performance. The measurement of this stock price variable is the closing price of each company obtained from the stock price at the end of the year.

The purpose of stock price valuation is to assist investors in determining which stocks are the most profitable. Investors will always compare the intrinsic value with the stock's market price in question in stock trading. Stocks that have a market value higher than their intrinsic value (overvalued) are stocks that are worth selling. On the other hand, stocks that have a lower market value than their intrinsic value (undervalued) are stocks that are worth buying. This fact requires investors to analyze stock prices accurately.

Investors use two approaches to analyze and assess the unit price of shares, namely technical analysis and fundamental analysis. Technical analysis is a technique that analyzes price fluctuations within a certain period or concerning other factors such as transaction volume. In contrast, the fundamental analysis considers various factors, such as the economic condition of a

country and economic policies, both macro, and micro (Izzah et al., 2021). Some of the primary or fundamental factors that affect stock prices are sales, sales growth, company operations, profits, dividends, the general meeting of shareholders (GMS), changes in management, and statements made by company management. There are five types of financial ratios: liquidity ratios, solvency ratios, activity ratios, profitability ratios, and valuation ratios. To this research, the author will analyze several factors that affect stock prices such as Return on Equity (ROE), Earning Per Share (EPS), price earning ratio (PER), Price to Book Value (PBV), Debt to Equity Ratio (DER) and stock Beta.

Return On Equity (ROE) is a ratio that shows the results (return) on the use of company equity in creating net income (Hery, 2015). Return On Equity (ROE) is the ratio of total debt to total company equity (Admi et al., 2019). Return On Equity (ROE) is one of the main tools investors use most in valuing a stock (Loist, 2019). According to Harahap (2007), Return On Equity (ROE) measures shareholders' return on investment. This figure shows how well management is utilizing the investments of shareholders. The ROE level has a positive relationship with stock prices. The greater the ROE, the greater the stock price because the ROE indicates that the returns received by investors will be high so that investors will be interested in buying the shares, which causes the stock market price to rise.

Earning Per Share (EPS) is a ratio that shows how much profit (return) is obtained by investors or shareholders per share (Fathihani, 2020). Earning Per Share or earnings per share is the first essential component that must be considered in the company's analysis. Earnings per share show the amount of profit available for distribution among equity shareholders (Pathade, 2017). EPS information shows the company net profit that is ready to be distributed to all company shareholders. The number of EPS of a company can be known from the company's financial statement information. EPS describes the company's profitability which is reflected in each share (Mustaffa and Syabani, 2021).

Price Earning Ratio (PER) is the relationship between market share prices and current earnings per share, which investors widely use as a general guideline for measuring stock value (Gayatri and Thamrin, 2020). Price Earning Ratio (PER) is a ratio related to earnings per share, where this ratio is used as a business continuity method in valuing shares (Tanjung, 2019). Price Earning Ratio (PER) is the second important component in analyzing the company after Earning Per Share (EPS). PER information indicates the amount of rupiah paid by investors to obtain one rupiah of company earnings. In other words, PER is the amount of price per one rupiah of company earnings. In addition, PER is also a measure of the relative price of a company's stock. Price Earning Ratio compares the market price per share of common stock (market value) with earnings per share (earnings per share) (Inge Beliani and Budiantara, 2017). This ratio compares the share price obtained from the capital market and the earnings per share obtained by the company's owner and is presented in the financial statements.

Price to Book Value (PBV) is a ratio that investors can use to compare stock with other stocks (Fathihani, 2020). PBV is a ratio that shows whether the stock price (its market price) is trading above or below the stock's book value. In technical terms, whether the stock is overvalued or undervalued. A stock is said to be overvalued if the share price is above the stock's book value. On the other hand, a stock is undervalued if the share price is below the stock's book value (Siamat, 2005).

PBV describes how much the market appreciates the book value of a company's shares. The higher this ratio, the more successful the company is in creating value for shareholders (Novitasari, 2013). If the company's prospects are getting better, the

smaller the risk accepted by shareholders so that there will be an increase in share prices and cause share income (return) to increase.

Debt to Equity Ratio (DER) is a solvency ratio where this ratio is related to the company's ability to repay its debts (Kusmayadi et al., 2019). This ratio describes the extent to which the company uses borrowed debt. The higher the ratio, the lower the level of company funding provided by the holder (Pratama et al., 2019). When the debt used by the company exceeds a certain amount, the company's ability to generate profits is smaller than the interest rate paid by the company (Shalini, 2020).

Systematic risk is the relationship between a portfolio return and a different market return (Keown et al., 2011). In contrast, beta measures the number of coefficients that describe the sensitivity or tendency of a stock's response to the market. Beta shares can be used as a consideration for investors in buying shares. However, the larger the beta, the more sensitive the stock gains to changes in market profits, so the stock is riskier. The higher the beta value, the riskier an investment, so the lower the stock price. The systematic risk or market risk is the risk associated with changes in the market as a whole, where systematic risk is a risk that cannot be diversified (Purnami et al., 2020). Systematic risk can be measured using the stock beta index. Stock beta measures the sensitivity of stock returns to overall market financial returns (Biase & D'Apolito, 2012). The security beta index shows the sensitivity of a security's profit level to market changes and stock price fluctuations. The higher the stock price fluctuation, the higher the beta index, which means the risk of the stock is getting bigger. The beta index measures the extent to which individual stock prices fluctuate as market prices fluctuate. The beta index can be positive or negative. A negative beta index means that the opposite condition always occurs. If, in general, the stock price has increased, then the stock that represents a negative beta index has decreased.

Previous Research Review

There have been several previous studies examining the analysis of financial fundamentals and systematic risk on stock prices. Jamal's research results (2020) show that ROE and EPS significantly affect stock prices, while stock betas have no significant effect. Contrary to Hidayat & Thamrin's research (2019) results, which shows ROE and EPS have no significant effect on stock prices, while PBV affects stock prices. Khanji's research (2020) results show that PER has no significant effect on stock prices. In contrast to the research results by Sinaga & Hasanuh (2020), which obtained the results that PER had a significant effect on stock prices. Beliani & Budiantara's research (2017) states that PBV has no significant effect. The study results by Tarmidi et al. (2020) stated that DER had no significant effect, while Pernamasari et al. (2020) stated that DER had a significant effect on stock prices. Astuty's research (2017) states that stock beta has a significant effect on stock prices.

Framework

Following the description of the background of the problem, literature review, and previous research, a conceptual research framework is prepared as follows:

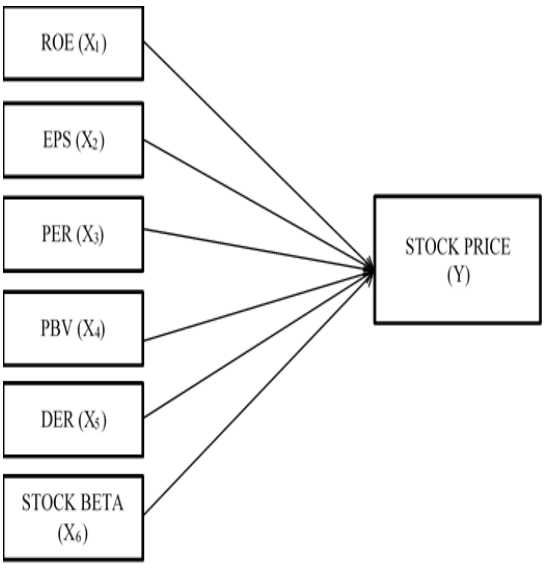


Figure 1.Conceptual Framework

H1: Return on Equity (ROE) has a positive and significant effect on stock prices.
H2: Earning Per Share (EPS) has a positive and significant effect on stock prices. H3: Price Earning Ratio (PER) has a positive and significant effect on stock prices.
H4: Price Book Value (PBV) has a positive and significant effect on stock prices.
H5: Debt Equity Ratio (DER) has a positive and significant effect on stock prices.
H6: Stock beta has a positive and significant effect on stock prices.

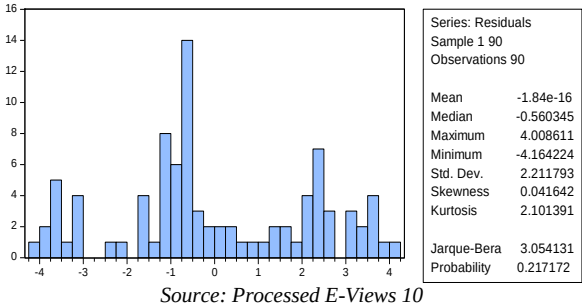
RESEARCH METHODS

This type of research is causal associative research to determine the effect of Return On Equity (ROE), Earning Per Share (EPS), Price Earning Ratio (PER), Price Book To Value (PBV), Debt Equity Ratio (DER), and Stock Beta as an independent variable on Stock Price as the dependent variable. The causal associative study aims to analyze the relationship between one variable and another to know how one variable affects other variables (Sugiyono, 2015). The data analysis method used in this study is a statistical analysis method using the EViews ten application. Data analysis performs by testing standard assumptions and testing hypotheses.

The sampling technique used is the saturated sample technique. The population used in this study were nine pharmaceutical companies listed on the Indonesia Stock Exchange in 2010-2019. So that obtained a sample of 9 companies multiplied by ten years of research to obtain 90 observations.

RESULT AND DISCUSSION

Normality Test



Source: Processed E-Views 10

Figure 2. Normality Test

Based on Figure 2., it is known that the probability value of the J-B statistic is 0.217172. Because the probability value, which is 0.217172, is greater than the significance level, which is 0.05. It means that the assumption of normality is met.

Analysis Model Selection

To analyze panel data, the thing that must be done is to analyze the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) to determine the appropriate model to use.

Common Effect Model Test

Table 2.Common Effect Model Estimation Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	5.968807	0.550517	10.84219	0.0000
ROE	-0.004500	0.008353	-0.538710	0.5915
EPS	-0.008671	0.003448	-2.514988	0.0138
PER	0.000740	0.002377	0.311416	0.7563
PBV	0.074771	0.051785	1.443873	0.1525
DER	-0.051467	0.035772	-1.438745	0.1540
Stock Beta	-0.684511	0.698833	-0.979506	0.3302

Source: Processed E-Views 10

From the regression results of common effect models, it is concluded that ROE, EPS, DER, and Beta Stocks have a negative effect on stock prices partially. In contrast, PER and PBV have a positive effect on stock prices partially.

Fixed Effect Model Test

Table 3.Estimated Results of Fixed Effect Models

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	5.918774	0.611028	9.686578	0.0000
ROE	-0.003866	0.009135	-0.423186	0.6734
EPS	-0.008228	0.003659	-2.248840	0.0275
PER	0.000494	0.002631	0.187802	0.8515
PBV	0.084010	0.056520	1.486372	0.1414
DER	-0.059059	0.038868	-1.519480	0.1328
Stock Beta	-0.667620	0.752990	-0.886625	0.3781

Source: Processed E-Views 10

From the regression results of fixed-effect models, it can be concluded that ROE, EPS, DER, and Beta Stocks have a partial negative effect on stock prices. In contrast, PER and PBV have a positive effect on stock prices partially.

Chow Test

Table 4.Chow Test Results

Redundant Fixed Effects Tests
Pool: DPANEL
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.196185	(8,75)	0.9906
Cross-section Chi-square	1.863939	8	0.9849

Source: Processed E-Views 10

Based on the results of the Chow test above, it is known that the probability value is 0.9849. Then it is concluded that the probability value is 0.9849 > 0.05, so the estimation model used is the common effect model (CEM).

Random Effect Model Test

Table 5.Estimated Results of Random Effect Models

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	5.968807	0.573168	10.41372	0.0000
ROE	-0.004500	0.008696	-0.517420	0.6062
EPS	-0.008671	0.003590	-2.415598	0.0179
PER	0.000740	0.002474	0.299109	0.7656
PBV	0.074771	0.053916	1.386813	0.1692
DER	-0.051467	0.037244	-1.381887	0.1707
Stock Beta	-0.684511	0.727586	-0.940797	0.3495

Source: Processed E-Views 10

From the estimation results of random effect models, it is concluded that ROE, EPS, DER, and Stock Beta have a negative effect on stock prices partially. In contrast, PER and PBV have a positive effect on stock prices partially.

Lagrange Multiplier Test

Table 6.Lagrange Multiplier Test Estimation Results

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.530228	Prob. F(2,81)	0.0859
Obs*R-squared	5.292106	Prob. Chi-Square(2)	0.0709

Source: Processed E-Views 10

Based on the Lagrange Multiplier test results in the table above, it is known that the probability value is 0.0709. Because the probability value is 0.0709 > 0.05, the estimation model used is the common effect model (CEM).

Hypothesis Test

Table 7.Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROE	-0.004500	0.008353	-0.538710	0.5915
EPS	-0.008671	0.003448	-2.514988	0.0138
PER	0.000740	0.002377	0.311416	0.7563
PBV	0.074771	0.051785	1.443873	0.1525
DER	-0.051467	0.035772	-1.438745	0.1540
STOCK BETA	-0.684511	0.698833	-0.979506	0.3302
C	5.968807	0.550517	10.84219	0.0000

R-squared	0.176766	Mean dependent var	5.206860
Adjusted R-squared	0.117255	S.D. dependent var	2.437714
S.E. of regression	2.290343	Akaike info criterion	4.569866
Sum squared resid	435.3905	Schwarz criterion	4.764296
Log likelihood	-198.6440	Hannan-Quinn criter.	4.648272
F-statistic	2.970310	Durbin-Watson stat	1.679772
Prob(F-statistic)	0.011200		

Source: Processed E-Views 10

Determinant Coefficient R2 (Goodness of Fit R2)

Based on Table 7, it is known that the coefficient of determination (R-squared) is. This value can be interpreted that Return on Equity (ROE), Earning Per Share (EPS), Price Earning Ratio (PER), Price Book Value (PBV), Debt to Equity Ratio (DER), and Stock Beta simultaneously or jointly affect share price is 17.67%, other factors influence the remaining 82.33%.

Simultaneous Significance Test (F Test)

Based on Table 7., it is concluded that Fcount > Ftable (2.970310 > 2.21) and the probability value is 0.011200 <0.05. It can be concluded that all independent variables, namely ROE, EPS, PER, PBV, DER, beta shares simultaneously, have a significant effect on the stock price variable.

Partial Test (t-Test)

Based on table 7 above, it can be seen that the probability value of the ROE variable is 0.5915 > 0.05, so it can be concluded that the ROE variable has no significant effect on stock prices. Then the probability value on the EPS variable is 0.0138 <0.05, so it can be concluded that the EPS variable has a significant effect on stock prices. The probability value for the PER variable is 0.7563 > 0.05, so it can be concluded that the PER variable has no significant effect on stock prices. The

probability value on the PBV variable is 0.1525 > 0.05, so it can be concluded that PBV has no significant effect on stock prices. The probability of the DER variable is 0.1540 > 0.05, so it can be concluded that DER does not affect stock prices. While the probability value of stock beta is 0.3302 > 0.05, it can be concluded that stock beta has no significant effect on stock prices.

CONCLUSION

Based on the results of data analysis and research discussion, the following conclusions can be drawn:

1. Partially the ratio that has a negative and significant effect on the stock price of Pharmaceutical Companies listed on the Indonesia Stock Exchange in 2010-2019 is Earning Per Share (EPS). Return on Equity (ROE), Debt to Equity Ratio (DER), and stock beta have a negative and insignificant effect. In contrast, the Price Earning Ratio (PER) ratio and Price Book Value (PBV) have a positive and insignificant effect.
2. Simultaneously or jointly, Return on Equity (ROE), Earning Per Share (EPS), Price Earning Ratio (PER), Price Book Value (PBV), Debt to Equity Ratio (DER), and stock Beta have a significant effect on stock price variable 17.67% in Pharmaceutical Companies listed on the Indonesia Stock Exchange in 2010-2019 while other variables influence 82.33%.

LIMITATIONS OF THE RESEARCH

1. This study uses secondary data so that data analysis is highly dependent on the results of data publication (company financial statements) with an observation period of 10 years.
2. This research is limited to the pharmaceutical company sector listed on the Indonesia Stock Exchange (IDX), whose research sample is only nine companies.
3. Based on the magnitude of the coefficient of determination (adjusted R2), which is 17.67%, several other variables affect the company's stock price, which was not examined in this study by the researcher. Because this research only focuses on Return on Equity (ROE), Earning Per Share (EPS), Price Earning Ratio (PER), Price Book Value (PBV), Debt to Equity Ratio (DER), and Stock Beta as independent variables. Therefore, it is recommended for further researchers to use financial ratios other than Return on Equity (ROE), Earning Per Share (EPS), Price Earning Ratio (PER), Price Book Value (PBV), Debt to Equity Ratio (DER). Furthermore, Stock Beta is to be used as an independent variable because there are still many ratios that can be used.

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