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The Effect of Profitability and Solvability on Stock Prices of State-Owned Banks Listed on the Indonesia Stock Exchange

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ABSTRACT

This article aims to study and analyze the effect of profitability and solvability simultaneously on stock prices. The secondary objective is to analyze the effect of profitability on stock prices and analyze the effect of solvability on stock prices. The total population in the study was 4 SOEs so that all banks were sampled, thus the sampling technique used a census. The data used are financial statements for the period 2012 to 2021. The analysis technique uses multiple regression analysis. The results of the analysis show that profitability and solvability simultaneously affect stock prices. Profitability has an effect on stock prices. Solvability does not affect the stock prices of state-owned banks listed on the Indonesia Stock Exchange. Thus, banking in order to continuously improve financial performance in order to increase the stock prices of the bank. For investors who want to invest in the capital market, they should consider the financial performance of the bank in making investment decisions, so that the company's financial prospects and future developments can be known. Where profitability can be used as an analytical tool that can represent in measuring the company's financial performance.

Keywords: Profitability, Solvability, Stock Prices.

1. INTRODUCTION

The stock prices is the value of a share that reflects the wealth of the company that issued the shares, where changes or fluctuations are largely determined by internal factors and external and internal factors. The forces of supply and demand that occur in the stock exchange are external factors. The more investors who want to buy or keep a stock, the price will go up, conversely the more investors who want to sell or release a stock, the price will move down. Furthermore, internal factors are fundamental factors related to the condition and value of the company based on the company's performance. Stocks that have performed well even though their prices have fallen hard due to bad market conditions will not be lost if investor confidence recovers. If the economic cycle begins to improve or other things improve, the stock prices will rise again. One way to overcome the decline in stock prices is to hold the stock for a long time until market conditions improve.

In the capital market, stock prices increases and decreases often follow changes in the business environment at that time. For this reason, investors need accurate information as consideration for making investments. In investing, investors expect the best return, therefore to determine the right stock choice, it is necessary to carry out a fundamental analysis related to the company's financial performance regarding the effectiveness and efficiency of the company to achieve its goals by analyzing the company's financial condition. Fundamental analysis is carried out to analyze the condition and value of the company based on the company's performance. Analyzing the company's performance can be done by analyzing the company's financial performance by looking at the financial statements that have been published by the company. From the financial statements, investors can obtain information about the performance of a company that measures the success of each business. Good company performance can increase net income so that the company's stock prices becomes high. Accounting information is a form of records of what the company needs, this can help in making decisions regarding the achievement of managerial goals (Fristiana, 2016).

The measure commonly used in the analysis of financial statements is by using financial ratio analysis. Financial ratio analysis is an analysis that is often used because it is the most appropriate method to be applied in assessing company performance. To perform financial ratio analysis, it is necessary to calculate financial ratios based on certain aspects based on the purpose of the analysis to be carried out and from which party the analysis will be carried out. Financial ratios are classified, among others, such as liquidity ratios, solvability ratios, activity ratios, profitability ratios and market ratios. In this study, the ratios used to analyze the financial performance of manufacturing companies related to stock prices include profitability ratios proxied by return on investment, Many studies have been carried out to analyze the effect of profitability and solvability on stock prices, but there are still many that produce various conclusions. The results of research by Candra and Wardani (2021), Rahayu and Triyonowati (2021), Evanjeline and Suwitho (2021), and Saragih (2021) prove that profitability has an effect on stock prices. However, research results Pangemanan et al. (2022) and Fitriyani (2022) found that profitability had no effect on stock prices. Pangemanan et al (2022), Triyonowati (2021)proves that solvability has an effect on stock prices. Different from the research resultsCandra and Wardani (2021), Evanjeline and Suwitho (2021), Saragih (2021)and Fitriyani (2022)found that solvability had no effect on stock prices. Thus, it becomes a gap for reassessment of the effect of profitability and solvability on stock prices.

2. LITERATURE REVIEW

2.1. Stock Prices

The stock price is the price of a share at a certain time determined by market participants by the demand and supply of shares in the capital market. At a certain time, it means that the stock prices can change at any time. Darmadji and Fakhruddin (2012:102) define stock prices as prices that occur on the stock exchange at a certain time. Stock prices can change up or down in a matter of time so quickly. It can change in minutes or even in seconds. This is possible because it depends on the demand and supply between the stock buyers and the stock sellers. Brigham & Houston (2010:7) suggest that stock prices determine shareholder wealth. Maximizing shareholder wealth translates into maximizing the company's share price.

2.2. Profitability

Profitability according to Fahmi (2014:81) is used to measure the effectiveness of overall management which is indicated by the size of the level of profit obtained in relation to sales and investment. Furthermore, according to Kasmir (2017: 196) the profitability ratio is a ratio to assess the company's ability to seek finance. This ratio also provides a measure of the effectiveness of a company's management. This is indicated by the profit generated from sales and investment income. The point is that the use of this ratio shows the efficiency of the company.

2.3. Solvability

Solvability according to Sartono (2011:114) is a ratio that shows the company's capacity to meet short-term and long-term obligations. Hanafi (2016:40) defines the solvability ratio measures the company's ability to meet its long-term obligations. Furthermore, Husnan (2015: 560) states that the solvability ratio measures how far the company uses debt.

2.4. Research Hypothesis

The hypotheses proposed in this study are as follows:

H1 : Profitability and solvability affect stock prices

H2 : Profitability affects stock prices

H3 : solvability affects stock prices.

3. RESEARCH METHODS

This research is a researchquantitative and designed with a causal approach. The population used in this study are all state-owned banks listed on the Indonesia Stock Exchange in 2012-2021, totaling 4 banks. From this number, samples were taken using the census method, namely all members of the population were used as research samples, as follows: Bank Mandiri (Persero) Tbk, Bank Negara Indonesia (Persero) Tbk, Bank Rakyat Indonesia (Persero) Tbk and Bank Tabungan Negara (Persero) Tbk.

The variables in this study consisted of 1 dependent variable, namely stock prices and 2 independent variables consisting of profitability and solvability.The stock prices in this study is the closing price at the end of the year (closing price).Profitability ratiois a ratio to assess the bank's ability to obtain profits or profits within a certain period of all sources of funds used. In this case, it is proxied by Return on Investment (ROI) with the following formulation:

$$\textbf{ROI} = \frac{\text{Earning after interest and tax}}{\text{Total Assets}} \text{ x } 100\%$$

ROI is a measure of the effectiveness of management in managing its investments. The higher this ratio, the more effective the use of funds in bank operations and vice versa.

The solvability ratio is a ratio that describes the relationship between a bank's long-term debt to its own capital or bank equity, which is proxied by the debt to equity ratio (DER) with the following formulation:

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$$\textbf{DER} = \frac{\text{Total Long-Term Liabilities}}{\text{Total Equity}}$$

Data analysis method used in this research is multiple regression analysis with statistical analysis method using SPSS program.

4. RESULTS AND DISCUSSION

4.1. Descriptive statistics

The results of descriptive statistics for each variable in this study are presented in the following table.

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	40	0.07	3.52	1.8032	0.83697
Solvability	40	1.15	45.79	13.2578	11.93235
Stock Prices	40	870	12900	5844.75	3269.145
Valid N (listwise)	40				

Based on the table above, it can be seen that bank profitability as measured by ROI from 2012 to 2021 has an average value of 1.80%.This shows that the bank has the ability to generate profits optimally, the higher the value of the bank's ROI ratio, the greater the company's ability to manage all its assets to generate profits.Bank solvability as measured by debt to equity ratio from 2012 to 2021 has an industry average value of 13.26%. This shows that the debt to equity ratio is good in generating enough money to meet its debt obligations. The closing share price of state-owned banks from 2012 to 2021 fluctuated. The highest share price is Rp. 12,900 in 2014 were at PT Bank Rakyat Indonesia Tbk, while the lowest share price occurred in 2013 which was Rp. 870 owned by PT. State Savings Bank Tbk.

4.2. First Hypothesis Testing

To test the first hypothesis which states thatprofitability and solvability simultaneously have a significant effect on stock prices of state-owned banks listed on the Indonesia Stock Exchange, using the F test. The results of the F test are presented in the following table.

Table 2
F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	166353541.406	2	83176770.703	12.288	0.000(a)
	Residual	250451606.094	37	6768962.327		
	Total	416805147.500	39			

a Predictors: (Constant), Solvability, Profitability
b Dependent Variable: Stock Prices

Based on the results of the F test, the Fcount value is 12.288, while Ftable is atα= 5% of 2.26; this means that Fcount > Ftable (12.288 > 2.26) while the probability value is smaller thanα= 0.05 (0.000 < 0.05), then Ho is rejected and Ha is accepted which means that the independent variables: profitability, and solvability simultaneously or jointly have a significant effect on stock prices. Thus the first hypothesis is statistically accepted or tested.

4.3. Second Hypothesis Testing

To test the second hypothesis which states thatprofitability has a significant effect on the stock prices of state-owned banks listed on the Indonesia Stock Exchange, using the t test. The results of the t test are presented in the following table.

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Table 3
T-Test Results The Effect of Profitability on Stock Prices

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	253.502	1605.695		0.158	0.875
	Profitability	2787.763	625.884	0.714	4.454	0.000
	Solvability	42.557	43.902	0.155	0.969	0.339

a Dependent Variable: Stock Prices

Based on the t-test table above, the value of tcount = 4.454 while the value of ttable = 2.021 so that tcount < ttable or a significance value of 0.000 <0.05 so Ho is rejected or Ha is accepted, so it is proven that the profitability variable has a significant effect on stock prices and the magnitude of the effect of profitability on stock prices of 2787,763. Thus the second hypothesis is statistically tested.

4.4. Third Hypothesis Testing

To test the third hypothesis which states thatsolvability has a significant effect on the stock prices of state-owned banks listed on the Indonesia Stock Exchange, using the t test. The results of the t-test of the effect of solvability on stock prices are presented in the following table.

Table 4
T-Test Results The Effect of Solvability on Stock Prices

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	253.502	1605.695		0.158	0.875
	Profitability	2787.763	625.884	0.714	4.454	0.000
	Solvability	42.557	43.902	0.155	0.969	0.339

a Dependent Variable: Stock Prices

Based on the tablet test obtained the value of tcount = 0.969 while the value of ttable = 2.021 so that tcount < ttable or significance value 0.339 > 0.05 so Ho is accepted or Ha is rejected, so that the solvability variable has no effect on stock prices, and the magnitude of the effect of solvability on stock prices is 42.557. Thus the third hypothesis is not statistically tested.

4.5. Discussion

4.5.1. Effect of Profitability and Solvability on Stock Prices Simultaneously

The results of the analysis show that profitability and solvability simultaneously affect stock prices. This shows that an increase in profitability and supported by good solvability can increase stock prices. This shows that profitability and solvability are considered by investors in making investment decisions. Thus the combination of financial ratios will influence investors' decisions more and will affect stock prices, because stock prices will change along with changes in demand and supply of shares by investors. The bank's internal parties or management make and publish financial reports with the aim of giving signals to investors about the bank's performance. Signaling about bank performance is expected to attract investors to invest in banks by using financial statements as investors' considerations. The results of this study support Pangemanan et al (2022) who found that profitability and solvability simultaneously affect stock prices. However, the results of this study do not support Fitriyani (2022) who finds that profitability and solvability simultaneously have no effect on stock prices.

4.5.2. The Effect of Profitability on Stock Prices

Profitability proxied by ROI has an effect on stock prices, which means that profitability is considered by investors in investing their funds in the capital market. Investors believe that companies with high profitability have a great opportunity to make profits, which has an impact on investors being more interested in buying company shares so that the bank's stock prices increases. The higher the profitability value, the higher the bank's stock price. To increase the value of the bank which also means the prosperity of the shareholders, then of course the step for the bank is to look for investment opportunities that can actually generate a high rate of return on investment. As the opinion of Brigham and Houston (2010) which states that the presentation of earnings information through financial statements is an important measure of company performance compared to performance measures based on other descriptions. The high and low profits can be seen from the company's profitability ratios, because the higher the profitability, the higher the stock price. However, if the number of assets is idle, it can result in a lot of stored assets, resulting in the cost of using assets getting bigger and resulting in reduced bank profitability. Then from these measurements will

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be able to describe the performance of the bank in managing all assets owned in order to achieve profit and if the calculation of this ratio is higher, the better the condition of the bank. Good bank conditions will be attractive for investors to invest, because banks with high ROI are considered safe and there is hope for profit. The more investors who are interested in buying shares, the stock prices will rise, because essentially the price of a stock is determined by market conditions, namely the level of demand and supply of the stock. The results of this study support Candra and Wardani (2021), Rahayu and Triyonowati (2021), Evanjeline and Suwitho (2021), and Saragih (2021) who found that profitability had an effect on stock prices. However, the results of this study do not support The more investors who are interested in buying shares, the stock prices will rise, because essentially the price of a stock is determined by market conditions, namely the level of demand and supply of the stock. The results of this study support Candra and Wardani (2021), Rahayu and Triyonowati (2021), Evanjeline and Suwitho (2021), and Saragih (2021) who found that profitability had an effect on stock prices. However, the results of this study do not support The more investors who are interested in buying shares, the stock prices will rise, because essentially the price of a stock is determined by market conditions, namely the level of demand and supply of the stock. The results of this study support Candra and Wardani (2021), Rahayu and Triyonowati (2021), Evanjeline and Suwitho (2021), and Saragih (2021) who found that profitability had an effect on stock prices. However, the results of this study do not support and Saragih (2021) who found that profitability has an effect on stock prices. However, the results of this study do not support and Saragih (2021) who found that profitability has an effect on stock prices. However, the results of this study do not supportPangemanan et al (2022) and Fitriyani (2022) who found that profitability had no effect on stock prices.

4.5.3. The Effect of Solvability on Stock Prices

Solvability as proxied by debt to equity ratio has no significant effect onstock price.This shows that the level of solvability has no impact on stock prices. Solvability is considered less attractive to investors so it has no impact on stock prices. A high debt to equity ratio indicates that the loan funds used by banks in their operations are very large. Assets financed by debt can provide separate benefits for the bank. Although basically high debt can pose a big risk for the bank. But this risk is not so influential because debt is a commonly used source of funds. Although the level of bank debt is getting bigger, it does not mean that the bank's prospects are not good, because the debt is rational enough to carry out bank activities. The solvability ratio is a ratio to assess the company's ability to pay all of its obligations, both short term and long term if the company is dissolved. As opinionSartono (2011: 114), that the solvability ratio is a ratio that shows the company's capacity to meet short-term and long-term obligations.The higher the solvability, the company must increase its profits as much as possible in order to be able to finance and pay debts. The greater the role of funds originating from outside compared to own capital, the greater the risk that must be borne by the providers of funds/financing. The smaller the ratio the better for financing, a ratio of more than 1 indicates that the financing will bear greater risk from the owner.The results of this study supportCandra and Wardani (2021), Evanjeline and Suwitho (2021), Saragih (2021)and Fitriyani (2022) whofound that solvability had no effect on stock prices. However, the results of this study do not supportPangemanan et al (2022),Triyonowati (2021)who found that solvability had an effect on stock prices.

5. CONCLUSIONS AND RECOMMENDATIONS

Profitability and solvability simultaneously affect the stock prices of state-owned banks listed on the Indonesia Stock Exchange, which means that the better the level of profitability and good solvability, the higher the stock price. Profitability affects the stock prices of state-owned banks listed on the Indonesia Stock Exchange, which means that high profitability is a consideration for investors in investing their funds on the stock exchange so that it has an impact on increasing stock prices of state-owned banks listed on the Indonesia Stock Exchange.Solvabilitydoes not affect the stock prices of state-owned banks listed on the Indonesia Stock Exchange, which means that low solvability is not a consideration for investors in investing their funds on the stock exchange so that it does not have an impact on increasing stock prices of state-owned banks listed on the Indonesia Stock Exchange.

For banks, in order to further improve financial performance in order to increase the stock prices of the bank, thereby attracting many investors to invest their capital so as to have an impact on increasing bank capital. For investors who want to invest in the capital market, they should consider the financial performance of the bank in making investment decisions, so that the company's financial prospects and future developments can be known. Where profitability can be used as an analytical tool that can represent in measuring the company's financial performance.

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