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# The Influence of Earnings Per Share, Debt to Equity Ratio and Company Size on Stock Return

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**Abstract.**
The activities of manufacturing companies that utilize technology have provided easy information for investors. However, the COVID-19 pandemic has resulted in uncertainty for investors, where the asymmetric stock return response also impacts the financial markets in Indonesia. This paper examines the influence of earnings per share (EPS), debt-to-equity ratio (DER), and firm size (FS) on stock return (SR). Using a purposive sampling method with manufacturing companies listed on the Indonesia Stock Exchange on the 2016-2020 period and moderated regression analysis (MRA) as a tool for testing variables. This study uses the document analysis method of social research for exploring the theoretical model and empirical results on how earnings per share, debt to equity ratio, and company size on stock returns. The results showed from various empirical results, there is still little research on the ability of earning per share, debt to equity ratio, and company size as variables to analyze manufacturing companies listed on the Indonesia Stock Exchange. The results of the study can be expected to contribute to further research and facilitate the government to approach the development of manufacturing companies to encourage the economy. Meanwhile, investors can be informed about the company's financial performance. This study will provide advanced research guidance and convenience to the companies in providing solutions on increasing market value by increasing earnings per share, debt-to-equity ratio, and company size on stock returns.

**Keywords:** earning per share (EPS), debt to equity ratio (DER), firm size (FS), stock return (SR), manufacturing companies

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## 1. Introduction

The spread of the coronavirus in Indonesia in early March 2020 has an indirect impact on the economy. Quoted from CNN Indonesia on March 10, 2020, the impact of the coronavirus according to the Minister of Finance of the Republic of Indonesia, Sri Mulyani, Indonesia's economic growth is projected to reach 2.3%. In fact, under the most adverse conditions, the economy could reach -0.4%. The causes of this condition were mostly the declining of consumption and investment, both in the household and government spheres. In addition to affecting the exchange rate, Covid-19 also has an

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impact on the decrease in the Composite Stock Price Index (CSPI) which eventually plunged freely. Everything was hard to predict, and it was also not an easy thing to control [1].

The fourth industrial revolution was exalted in the early 2000s at that time when the internet started to grow and have better speed. During the adaptation period after the Covid-19 pandemic, the industrial revolution was steadily carried out by all industries in the world including in Indonesia. Companies in Indonesia began to get into the fourth industrial revolution during the pandemic. Now, the fourth industrial revolution is a phenomenon that combines cyber technology and automation technology.

Return is one of the factors that motivates investors to invest, and it is also a reward for the courage of investors in bearing the risk of the investment made [2]. Investors get profits (return) in the form of dividends and capital gains on their investments. The amount of dividends and capital gains received by investors depends on the amount of ownership. Dividend is a part of the company's profits that can be distributed to investors. While capital gain occurs when there is a difference in value between the selling price of shares which is greater than the purchasing price.

Before investors are convinced to invest a certain amount of money in a company through the purchase of shares in the capital market, several analyses are needed in order for them to be confident on their choice to invest in the company, that is, to get the maximum benefit in the form of return. Generally, every investor will choose an investment in a company that can provide a large return. Return can be predicted by performing several analyses on the company's financial statements. According to IAI [3], "a financial statement is a structured presentation of an entity's financial position and financial performance." This report shows the activities of entities which is quantified in the form of numbers or monetary values. This report can reveal the results of management accountability in using their resources. This also become the basis for making economic decisions.

Earning per share (EPS) is a measurement of financial performance through profitability ratios. EPS shows how much of the company's net profit can be distributed to each shareholder [4]. If EPS value is high, this shows good company performance, which in turn gives a large return to shareholders and investors [5]. Investors tend to invest their capital in companies which have a large EPS value.

There are previous studies on the effect of earnings per share on stock return. Based on research conducted by Karim [4] which stated that earnings per share have no effect on stock return. However, different things were found in the results of research by Khan

et al. [6] which stated that earnings per share had a significant positive effect on stock return.

The implementation of company operations often requires greater capital, and the company can obtain it through debt. A company with huge debt indicates that the company's operations are financed by debt. Valuation of debt can be measured by leverage ratio through Valentina et al. [7] Debt to Equity Ratio (DER). The greater the risk of the company, the greater the return generated. The bigger the company, Valentina et al. [7] the bigger the assets and the turnover of the company, which means the sales are greater and the profits generated are also increased. The results of research Muniarti et al. [8] stated that the leverage ratio (DER) has an effect on stock return. These results contradict the results of research conducted by Zubaidah and Anwar [9], Mareta [10] and Lestari [11] stating that the leverage ratio (DER) has no effect on stock return.

The size of the company can be determined by looking at the total assets owned by a company. The value of the company can affect the investor's decision making. According to Hidayat and Isroah [12], a large total assets can suppress the debt ratio, meaning that the company is indicated to provide benefits to its investors, and moreover the company is able to guarantee the distribution of returns to its investors both in expected economic conditions and in bad conditions.

There are previous studies on the influence of company size on stock return. According to Sopian and Rahayu [13], the size of the company has no significant influence on the stock return. While different things were found in the study of Zaki and Islahuddin [14], which showed that the size of the company had a significant positive effect on stock return.

The manufacturing sector was chosen by the authors because investment in manufacturing companies is more in demand by investors than any other sector. It can be seen that amid the impact of increasing Covid-19 cases, the manufacturing industry sector is still expanding. That is, there was an excellent performance by the manufacturing industry sector which was indicated by performing better than the previous year. This indicated that in the midst of the Covid-19 pandemic, Indonesia still has an attraction for investment with the size of the market, abundant resources, economic growth, and regulatory support from the government. Investment is also one of the driving motors of national economic growth and at the same time absorbing labor force in the industrial sector [15]. Quoted from Septyaningsih and Muhammad [16], the Ministry of Industry stated that the manufacturing industry is still the leading sector of the national economy amid the pressure of the Covid-19 pandemic. The contribution of the manufacturing

sector to the national economy is still high, although the economic growth rate in the third quarter of 2021 slowed down slightly.

Based on the description above and the differences in research results from previous studies, it is still found that each independent variable produces research that is not yet consistent. Therefore, the purpose of this study is to analyze the effect of earnings per share, debt to equity ratio, and company size on stock return in manufacturing companies listed on the Indonesia Stock Exchange.

## 2. Stock Return (SR)

According to Fahmi [17], stock is:

1. Proof of ownership of capital/funds in a company;
2. A piece of paper which clearly stated nominal value, company name, and followed by the rights and obligations described to each holder;
3. Supplies ready for sale.

1. Preferred stock. According to Hartono [18], preferred stock has a hybrid nature between bonds and common stock. Similar to bonds which pay interest on loans, preferred stocks also provide a fixed yield in the form of preferential dividends. Preferred stock has several rights, namely Choiriyah et al. [19] the right to dividends and the right to payment in advance in the event of liquidation.
2. Ordinary stock. According to Hartono [18], if the company only issues one class of stock, these stocks are usually in the form of ordinary stocks (common stock). A shareholder is the owner of a company that delegates to management to carry out the company's operations.
3. Treasury stock. According to Hartono [18], treasury stock is company-owned stocks that have been issued and outstanding, which are then bought back by the company. They are not to be retired, but kept as treasury [19].

According to Acheampong et al. [20], return refers to financial gain on investment result. In this case, it can be concluded that stock return is the expected level of return on investments made in stocks or groups of stocks through a portfolio. Every investor who is making an investment has the same goal, which is to make a profit. In addition to having the same objectives, investors also have different investment objectives, namely to obtain short-term profits and long-term profits. Every investment, whether it is a short

or long term, has the main objective of obtaining a profit called return, both directly and indirectly.

$$Rate\ of\ Return = \frac{(Selling\ Price - Purchase\ Price) + Dividend}{Purchase\ Price} (1)$$

## 2.1. Earning Per Share (EPS)

Earnings per Share is an information which indicates the amount of net profit that can be distributed to shareholders. According to Utami and Darmawan [21], Earning per Share (EPS) as a measure of net profit after tax in a financial year with the number of shares issued will provide positive input for investors in making decisions to purchase shares, making the price rise.

According to Kasmir [22], EPS is “a ratio to measure management’s success in achieving profits for shareholders.” The higher the EPS value, the greater the profit given to shareholders. Profit ratios show the impact of liquidity management as well as assets and liabilities on a company’s ability to generate profits.

The ratio that can be used to analyze the company’s performance in relation to investor interests is EPS [23]. According to Karim [4], the company’s EPS information shows the amount of net profit that is ready to be shared for all the company’s shareholders. If EPS value is high, this shows good company performance, which in turn gives a large return to shareholders and investors.

According to Handayani and Zulyanti [24], Earning per Share (EPS) is one of the market ratios that can be used to determine the result of the comparison between the income to be received by shareholders or investors and the income generated (net income) to the share price of each share in the company.

According to Handayani and Zulyanti [24], Earning per Share (EPS) is one of the market ratios that can be used to determine the result of the comparison between the income to be received by shareholders or investors and the income generated (net income) to the share price of each share in the company. Earning per Share can be measured using the formula [25]:

$$EPS = \frac{Net\ Income}{Number\ of\ Share\ Outstanding} (2)$$

## 2.2. Debt to Equity Ratio (DER)

The leverage ratio can be used as a tool to measure how much the company depends on creditors in financing the company’s assets. Companies that have high leverage are

exposed to high risk of loss, but there is also the possibility to earn high profits. Similarly, the Bahri et al. [26] smaller the company's leverage, the smaller the risk. Mariani et al. [27] stated that the higher leverage ratio indicates the company's bad performance, because its capital is dependent on debt. The measurement of leverage is by comparing the total debt to equity which is usually measured through Debt Equity Ratio (DER). The leverage ratio can be measured by Debt Equity Ratio, which is comparing debt with the company's own capital.

$$DER = \frac{Liabilitas\ Total}{Asset\ Total} (3)$$

### 2.3. Firm Size (FS)

According to Alviansyah et al. [28], company size is related to the ability to enter the capital market, and other types of external financing that describe the company's ability to borrow debt. A company with large size will create a sense of trustworthiness in the eyes of the investors.

Firm size can be classified into small or large companies. According to Zulfa [29], the size of the company can influence the ability of management in operating the company in the face of various situations and conditions. In the end, the ability to operate the company can affect its share income. Company size can be measured using the formula:

$$FS = Ln\ (Asset\ Total) (4)$$

## 3. Method

This study uses the documentation analysis method of social research. This analysis is used because it combines coding content into a theme, similar to focus groups or interview transcripts from various documents. The purpose of this model study provides a proposal to determine the effect of earning per share, debt to equity ratio and company size on stock returns which will be used to determine important aspects of financial performance. This model became the starting point for further discussion to develop a convincing model that could be further tested at the empirical research stage in Figure 1, followed by a discussion of the theoretical review that built it.

## 4. Discussion

### 4.1. The influence of Earning Per Share (EPS) on Stock Return (SR)

The results of a study by Anwar [30] on *Impact of Firms' Performance on Stock Returns* stated that earnings per share have a significant negative effect on stock returns.

The results of similar research conducted by Rahmawati et al. [31] also stated that earnings per share have a negative effect on stock returns.

That is, if the value of earnings per share increases, it will cause the value of stock return to decrease and conversely, if earnings per share decrease, the value of stock return will increase. This could be due to the oversupply of shares. If earnings per share increase, then more investors will buy shares. But as a result, there is an oversupply of shares in the market. This can cause the stock return obtained from capital gain to increase. Because the more investors buy shares, the higher the stock price, resulting in the increase of capital gain. However, this caused the earnings per share that investors will receive to be smaller, because the profits earned by the company must be distributed to more shares that are circulating in the market.

### 4.2. The influence of Debt to Equity Ratio (DER) on Stock Return (SR)

According to the results of research by Yuliantari and Sujana [32], DER has a negative effect on stock returns.

The results of similar research conducted by Murniati [33], which stated that the leverage ratio (DER) has a negative effect on stock return. These results contradict the results of research conducted by Zubaidah and Anwar [9], Mareta [10] and Lestari [11], stating that the leverage ratio (DER) has no effect on stock return.

The high percentage of debt to equity ratio shows a high composition of total liabilities when compared to the total equity of the company. The impact of this is the increasing burden borne by the company on external parties, namely creditors. This increasing burden will reduce investors' interest and confidence in investing their funds in the said company, given that the risks carried by the company will grow. In this case, the decrease in investor interest will affect the price of the stock, and its impact will result in a decrease in return.

From result it can be concluded that the capital structure has no effect on firm value because of the relatively large-scale and stable characteristics of manufacturing companies in terms of the funding. Investors do not see the value of manufacturing companies based on structure capital owned by the company. It is presumed that

investors perceive the decision The funding chosen by the manager will not affect the investment decisions made by investors [11].

### 4.3. The influence of Firm Size (FS) on Stock Return (SR)

According to [14], the size of the Firm has no significant influence on the stock return.

While the results of research Zulfa [29] and Shafana et al. [34] stated that the size of the firm has no influence on stock return.

This happens because investors not only see the size of the company, but rather the company's operations. The company's activities and the good performance of the company's management reflected in the financial statements will be more beneficial to investors in determining whether to make an investment or not.

### 4.4. The theoretical concept

This theoretical concept analyzes the effect of earnings per share, debt to equity ratio, and company size on stock return as shown in Figure 1 below:

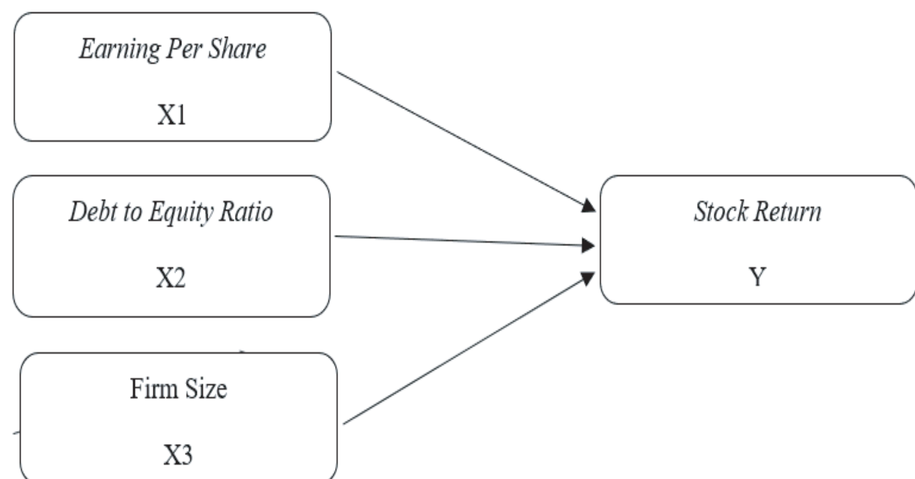


**Figure** 1: Conceptual Framework.

## 5. Conclusion

The concept of this theoretical model will be empirically tested using Moderated Regression Analysis (MRA) which uses secondary types of data obtained from each audited

financial statement recorded on the Indonesia Stock Exchange during the observation year.

This research can make it easier for the government to develop manufacturing sector companies to drive the economy. In addition, for investors, this can be used as a consideration and source of information in making decisions before investing in companies that have gone public. As for the company, it can provide solutions on how to increase market value through stock returns. Academically, this research can be further analyzed for companies that are developing and requiring attention in terms of increasing the value of the stock return. Therefore, the main objective of empirical studies and practical objectives is a national framework to encourage the increase of manufacturing sector enterprises in Indonesia, as well as the economic growth, and state development in Indonesia.

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