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Determinats of Banking Company Stock Price

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Abstract: Banking sector existences as the economy subsystem has an important role. Banking is a business activity as an intermediary between parties that make deposit (who have excess funds) and that who takes loan(needs funds). The banking industry has financial ratios that are not found in other industries such as the Capital Adequacy Ratio (CAR) and the Loan to Deposit Ratio (LDR). This study is to check the variables of CAR, LDR, ROA and SBIin order to consider the changing phenomenon in stock price of the banking companies listed in Indonesia Stock Exchange from 2011 to 2016. This study takes a sample of 27 companies of the banking sector that have consecutive listing from 2011 to 2016. It applies the Least Square Pooled analysis after taking a Random Effect Model and Fixed Effects Model analysis. The tool used in this study is Eviews version 8. The results show that the processing variable of CAR, LDR, ROA, and SBIaffords to explain the changing phenomenon in the stock price within 21.90%. This study also shows that the variables of CAR and ROA have significant influence on stock prices, while the LDR and the SBI had no significant effect.

Key words: CAR, LDR, ROA, SBI, Stock Price

1. INTRODUCTION

Banking sector in Indonesia has experienced difficult times in the Indonesia development economic system. Banking sector existences as the economy subsystem of important role. In everyday life, people as an individual tend to use the banking services as their financial transactions. Even though there were the global financial crises in 2008, the bank performance during the year was relatively stable.

Banking is a business activity as an intermediary between parties that make deposit (who have excess funds) and that who takes a loan (needs funds). This activity requires a healthy banking institution. Some ratios used in the banking industry and not found in other industries are the Capital Adequacy Ratio (CAR). Other ratio commonly used to value the financial performance of the banking industry is the Loan to Deposit Ratio (LDR). The company profitability in the usual fundamental analysis is usually measured by financial ratios. Financial ratio analysis achieve by comparing the elements of financial statements. The information in the comparison of the elements of financial statements are used by investors to make their investment policy analysis.

The stock price is a reflection of the company value in public society. The high stock prices give an idea to the public of how good corporate value is. It occurs vice versa, if the stock is in lowprice, it indicates that the value of the company is bad. That is why the stock price becomes important in maintaining the company value in public point of view.

The above-mentioned factors will further influence the increasing and decreasingstock prices. It is influenced by supply and demand in the capital market. One of the factors affects to the increasing and decreasingstock prices is the changes of financial information in financial statements. With this changing information, the financial ratio analysis by investors will also change.

2. SCOPE OF STUDY

In this research, the writer will do the analysis of external influences on stock price movement of the company banking in Indonesia Stock Exchange to answer the following questions: (1) Does the Capital Adequacy Ratio (CAR) effect on the banking company stock price? (2) Does the Loan to Deposit Ratio (LDR) effect on the banking company stock price? (3) Does the Return on Assets (ROA) effect on the banking company stock price? (4) Does the interest rate effect on the banking company stock price? (5) Does the CAR, LDR, ROA and interest rate simultaneously effect on the banking company stock price?

3. LITERATURE REVIEW

The capital market defines as the market for tradingsecurities that generally have more than one yearperiod, such as stocks and bonds (Tandelilin, 2010). In addition, the capital market is also defined as a place for trading any long-term financial instrument,either in the form of money or capital itself, both are issued by the government and other parties (Husnan, 2009). Thus, the capital market defines as a meeting place between the investors who have funds to those who need the funds by trading securities.

The experts have given several theories about the capital market. One of them as stated byFama (1970), it is a theory about the efficiency of capital markets. This theory states that the efficient capital markets are when the price of securities has reflected all relevant information. Another opinion expressed byHusnan (2009) that the efficient capital market has a pattern of changes in stock prices which following a random walk.

The fundamental analysis predicts the stock prices in the future by estimating the value of the fundamental factors affecting the stock price in the future, then applies the relationship of these variables in order to obtain the estimated price of the stock. One of the fundamental factors affecting the performance of a company is indicated by the financial ratios (Syauta and Widjaja, 2009)

In this research, the performance of the banking company is measured with the indicator of Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Return on Asset (ROA), and Interest Rate represented by the Indonesia Bank Certificate *(certificate Bank Indonesia* (SBI)*)*

3.1. Stock Price

Stock is a certificate of ownership of the company. Manurung (2009) provides an overview of ownership that determined by the length of time the shareholders have the ownership of shares. The period of ownership can be either long or short-term, but generally shares are held for long-term purposes.

The stock price is investor expectations of the income factor, cash flow and rate of return. Tandelilin (2010) suggests that the stock price assessment can be done in three ways, they are book value of the stock, market value and the intrinsic value of the stock. The book value of a stock is defined as the value calculated based on the company book issuer. The same expert said that stock market value is the value represented by the stock price in the stock market. The third value is the intrinsic book value of the stock defined as real stock or is called as the theoretical value.

The shareholders generally obtained two main benefits. Some opinions stated that the two benefits are (Darmadi and Fakhrudin in Dimiati, 2012) :

1. Dividend. Profits derived from the dividend distribution of profits given based on the company's profits.
2. Capital gain. This benefit is derived from the difference between the purchase price and the selling price. The difference occurs because of the fluctuation of the stock price on the stock. Capital gains are much sought by the short-term investors.

Hartono (2012) divides the actual stock assessment into two forms of analysis. They arefundamental securities analysis or company analysis and technical analysis. Data used in conducting the fundamental analysis is taken from the financial statements of the company. While the technical analysis uses data from the market to determine the value of the stock.

The information of financial statement used by the investors to analyze company is the most convenient and inexpensive information. Condition of the company, including the company's growth and prospects is available in the published financial statements of the company. Such information may be used by investors to predict future growth in order to make investments (Tandelilin, 2010).

3.2. Capital Adequacy Ratio (CAR)

Capital is one of the most important factors in the development of business ventures and to overcome the risk of loss. The capital amount of a bank will effect the bank's ability to efficiently carry out its activities, and may affect to the level of public confidence (specially for the debtor) to 23 bank performance (Sinungan, 2000). The use of the bank's capital is also intended to meet all the needs of the bank. The capital is used to support the operations of the bank and also as a tool for business expansion. Public confidence can be seen from the amount of current account, time deposits, and savings that exceed the amount of capital injection from its shareholders. The element of this trustness is an important indicator of the successful bank management.

One of the ratios that is commonly used in the banking business in terms of capital aspect is the Capital Adequacy Ratio (CAR). The central bank as a financial institution that acts as an intermediary institution must maintain its CAR ratio to remain a safe position, which will have an impact on the health condition of the bank itself. CAR is the ratio that shows how much all of the assets of banks that contain risks (credit, investments, securities, bills on other banks) can also be financed from its own capital, in order to obtaining funds from sources outside the bank, such as public funds, loans (debt), and others (Dendawijaya, 2009: 121). Adequacy Capital Ratio (CAR) is used to measure capital adequacy owned by banks to support the risky assets. The higher CAR makes the stronger bank's ability to bear the risk of any credit or risky assets (Dendawijaya, 2005). CAR is an indicator of the ability of banks to offset a decline in assets as a result of losses caused by the bank's risky assets (Hasan, 2011). If the CAR is high, it shows the bank ability to finance its operational activity. These circumstances can contribute significantly to the profitability of the concerned bank (ROA). In accordance with Circular Letter from Bank Indonesia No. 3 / 30DPNP dated December 14, 2001, the CAR ratio is defined as the ratio between the bank's capitals against risk-weighted assets.

In mathematically, CAR can be formulated as follow : (SE No.6/23/DPNP dated May 31, 2014)

$$CAR = \frac{Owner's\ Equity\ (Core\ Capital + Suplementary\ Capital)}{Risk\ Weighted\ Asset} \times 100\%$$

3.3. Loan to Deposit Ratio (LDR)

Loan to Deposit Ratio (LDR) is one of bank liquidity assessments. LDR is used to measure ability of the bank to pay the debt and repay the depositor. Besides that, it measures that the banking meets the demand of credit request. The other conclusion of LDR use is to know how much the loan to the costumer counterbalancing bank liability to meet depositor request who want to withdraw the money used by bank to extend credit (Dendawijaya, 2005:116). LDR is a ratio that indicates bank ability to repay the depositor withdrawing money by credit.

LDR is also the insecurity and ability indicator of a bank.If the loan have failed, the bank will have trouble to repay the depositor. If LDR indicates a low rate, the bank is in idle money condition. This condition will cause the bank to lose the opportunity to obtain greater profit. The amount of LDR follows the development of Indonesian economic condition. At the end of 2001, a bank is considered healthy if the amount of LDR between 80% until 110% (Muljono, 1999). In accordance with SE No.6/23/DPNP dated May 31, 2004 the amount of bank's LDR calculated by:

$$LDR = \frac{Total\ of\ Credit}{Total\ of\ Third-party\ Fund} \times 100\%$$

3.4. Return on Assets (ROA)

The company prospects in the future become better if the company's profits getting bigger. Investors need information of profitability in doing analysis to make investment decision for a company. The bigger profitability ratio of a company shows the great management in managing company.

Return on assets (ROA) is one of financial ratio used to measure profitability rate of a company. The ability of company assets to make profit can be measured by using this ratio. In other word, this ratio describes the ability of a company to use its assets to make profit. Company performance using its assets is measured by ROA. The investors use the information to analyze the management performance.

The high ROA indicates that the company operates effectively. The effective performance attracts the investors to invest their money in the company. The increase of shareholder book value is caused by the increase of ROA value. Investor expectation in shareholder return in the form of dividend is obtained by the increase of the book value. This will cause the increase of stock price.

3.5. Interest Rate

Interest Rate is monetary indicator which is quite important to appraise the economy of a country. The economy of a country is considered less good if the interest rate is too high. The allocation function is run by the Interest Rate of a country. The Interest Rate is used as the indicator in using goods and capital to produce goods and service. The goods and service can be used in the present or in the future time.

The Interest Rate describes payment level of the loan or other investment in the repayment agreement. The Interest Rate is stated in annual percentage (Dornbusch, et.al., 2008)). The Interest Rate influences the company by two ways as follows:

1. The Interest Rate is the cost, if other factors are considered constant, the interest rate is getting higher, and the company's profits are getting lower.
2. Economy activity is influenced by the interest rate so the company's profits are also influenced by the interest rate.

If the interest rate increases, the interest expense also increases directly. The company having high leverage will get bad impact to the increase of the interest rate. The increase of the interest rate decrease the company profitability so, it can give influence to the stock price of the company.

4. METHODS

The independent variables consist of CAR (X_1), LDR (X_2), ROA (X_3), and SBI (X_4), and the dependent variable SP (Y). Allegedly variables X_1, X_2. X_3, and X_4 affect Y. Under the influence of these variables, there are suspected of variable X dominant influence Y

This study will take objects banking companies listed in the Indonesia Stock Exchange. A population in a collection of individuals with qualities and characteristics - traits that have been established (Nazir, 2014: 240). Nazir also defines the sample as part of the population. Banking companies listing on the Indonesia Stock Exchange by December 31, 2016 a total of 41 companies.

In this study, samples will be taken by using purposive sampling method, the method of selecting samples with specific criteria (Emory & Cooper, 1999). This research sample criteriaare:

1. The Bank is listed on the Stock Exchange from 2011until 2016.
2. Having Asset above Rp. 142.5 Trillionin 2016
3. Companies belonging to10 Bank swith the largest assets according to Bank Indonesia in 2012 and the FSA in 2015.
4. Banks successively into the 10 banks with the largest Asset Cash magazine, Tribune, Compass andViva.
5. The Banks has made the publication of the financial statement swith the full 31 December.

To test the strength of the variables determinant (CAR , LDR , ROAL, SBI) of the SP , the model used in this research is panel data regression model (a combination of time series and cross section) with the help of the application program statistical computer Eviews 7.0, Gujarati, (2008 : 213) argues that the panel data is a combination of periodic data (time series) and individual data (Cross Section).

With panel data regression analysis has some advantages / advantages as mentioned by (Frankl , 2005: 18), among others :

1. Data panel is able to take into account the heterogeneity of individuals explicitly allowing individual specific variables.
2. The ability to control individual heterogeneity is further makes the panel data can be used to test and build a more complex behavioral models.
3. Panel data were based on the observation cross section repeatedly (time series), so that the panel data method is suitable for use as a study of dynamic adjustment.
4. The high number of observations have implications on the data more informative , more varied, colinearity between variables diminishing, and increased degrees of freedom or the degrees of freedom (degrees of freedom - df), so that the estimation results can be obtained more efficiently.
5. Panel data can be used to study models of complex behavior.
6. Panel data can minimize the bias that may arise by aggregation of individual data.

Based on these advantages above, then the panel data model should not be performed classical assumption test, such as testing multikolinearitas, heteroskedasitas, autokolrelasi, and normality (Gujarati, 2003; Wibisono, 2005).

At panel data regression known three kinds of approaches (Gujarati, 2003) which consists of a least squares approach (pooled least square), fixed effects approach (fixed effect), and the approach of random effects (random effect).

4. RESULTS AND DISCUSSION

The test begins with Classic assumption and continues with hypothesis test that is built before. Before the test, the description data is presented first of the data used in the research. The analysis method used is based on the multiple linear regression model and processed by using the program of EViews® 8

4.1. Descriptive Data

Data used in the data processing for the next stage will be described in this part. The descriptive data in that period is as follows:

	SHARE	*CAR*	*LDR*	*ROA*	*SBI*
Mean	2053,144	16,29636	80,06167	1,637407	6,670000
Median	945,0000	15,38500	83,06500	1,745000	6,540000
Maximum	13200,00	46,49000	113,3000	5,150000	7,540000
Minimum	50,00000	3,290000	8,110000	-12,90000	5,770000
Std. Dev.	2782,460	5,343234	14,57814	2,137363	0,560062
Observations	162	162	162	162	162

4.2. Classic Assumption Test

Multicolinearity Test

	Criteria	*Result*	*Conclusion*
Sub-Part One	F table 2,49	$F_{calculation}$ value 0,46 – 0,83	Not multicolinearity
Heteroskidastity Test (Glejser Test)			
	Criteria	*Result*	*Conclusion*
Sub-Part One	Variable Coefficient> 5%	Variable Coefficient > 5%	Heteroskidastity
Autocorrelation Test (Breusch-Godfrey Test)			
	Criteria	*Result*	*Conclusion*
Sub-Part One	Prob value > 5%	Prob value > 5%	uncontaminated autocorrelation

4.3. Model Selection Test

In this research, Model Selection Test is for equation used in accordance with the three models used for Data Panel that is explained in the previous chapter. From the three of Data Panel methods, the two approaches that are most used for estimating regression model with Data Panel are Fixed Effect Approach (FE) and Random Effect Approach (RE). Perform Redundant Fixed Effect LR/Chow-Test is used for determining method between Pooled Least Square (PLS) Approach and Fixed Effect Approach (FE), meanwhile Hausman Test is used for determining between Random Effect Approach (RE) dan Fixed Effect Approach (FE).

The first test is conducted by choosing between common effect model and fixed effect model using Chow test with probability result of Cross Section F and Chi Square which is 1,0000 lower than Alpha 0.05 so receiving zero hypothesis. For Chow test, the best model (sorting) is the model withPooled Least Square (PLS).

4.4. Hypothesis Test

	R^2	*Conclusion*
Determination Coefficient	21,90%	Dependent Variable can explain the change stock price of 21,90%
	Prob(F-statistic)	Conclusion
Statistic Test F	0.000001	Independent Variable jointly affects stock price

From the result of the test, it can be concluded that linear regression is

Stock price = 0.008+0.031D(CAR) + 0.005D(LDR)+0.261D(ROA)+0.036D(SBI)

5. CONCLUSION AND SUGGESTION

5.1. Conclusion

From the result of the hypothesis test and the discussion on the previous chapter, it can be concluded that:

1. Based on the conducted test can be concluded that Capital Adequity Ratio (CAR) partially have a positive significant effect on stock price of the banking companies listed in Indonesia Stock Exchange. CAR has positive effect on the stock price.
2. Loan to deposit Ratio (LDR) in this research partially shows that there is positive insignificant relation to stock price of the banking companies listed in Indonesia Stock Exchange.
3. Variable of Return on Asset (ROA) partially have a positive significant effect on stock price of the banking companies listed in Indonesia Stock Exchange.
4. The Interest Rate represented by SBI partially has a positive insignificant effect on stock price of the banking companies listed in Indonesia Stock Exchange.
5. Variables of CAR, LDR, ROA and SBI jointly have an effect on stock price of the banking companies listed in Indonesia Stock Exchange. Variables of CAR, LDR, ROA and SBI can explain changing phenomenon in the stock price of amount 21,90%.

5.2. Suggestions

From the limitation contained in this research, the writer proposes some suggestions as follows:

1. Based on coefficient test of determination, it can be seen that variables in this research explains less than 30 % of changing phenomenon in the stock price. The writer suggests to the next researcher to add variable research such as Capital, Assets, Management, Earning, Liquidity (CAMEL), Operation Efficiency (BOPO).
2. Macro variable can affect stock price movement. For it, the next researcher can add macro variable such as London Inter Bank Over Rate (LIBOR).

5. AUTHORS' CONTRIBUTION

NL designed the project, carried out the secunder data, performed quantitative analysis, and drafted most of the manuscript. AS drafted the text description of Case. Both authors contributed to the writing of the overall discussion and evaluation, edited the manuscript. Both authors read and approved the final manuscript.

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